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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)

THIRD QUARTERLY RESULTS ANNOUNCEMENT
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2020

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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

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

FINANCIAL RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of National Arts Entertainment and Culture Group Limited (the “**Company**”) announces the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the nine months ended 30 September 2020, together with the comparative figures for the corresponding period in 2019 as follows:

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Revenue					
– Goods and services	3	9,419	30,924	23,634	99,805
– Rental	3	911	12,349	2,911	32,775
Total revenue		10,330	43,273	26,545	132,580
Other income	3	(667)	1,246	9,174	3,203
Staff costs	6	(17,910)	(15,474)	(41,422)	(43,339)
Other operating expenses		(16,388)	(25,364)	(50,404)	(78,362)
Operating (loss)/profit		(24,635)	3,681	(56,107)	14,082
Depreciation of property, plant and equipment	6	(2,129)	(2,937)	(29,643)	(34,755)
Depreciation of right-of-use assets	6	(3,440)	(3,440)	(10,318)	(10,318)
Net exchange gain/(losses)		25,855	(24,859)	13,103	(26,675)
Share of loss of a joint venture		(582)	(591)	(1,811)	(1,876)
Share of profit of an associate		–	509	–	509
Impact of financial restructuring	5	(28,305)	–	825,964	–
Equity-settled share-based payments granted to financial adviser		(10,000)	–	(10,000)	–
Finance costs	4	(21,845)	(43,778)	(106,454)	(188,014)
(Loss)/profit before income tax	6	(65,081)	(71,415)	624,734	(247,047)
Income tax expense	7	–	–	–	–
(Loss)/profit for the period		(65,081)	(71,415)	624,734	(247,047)

	Three months ended		Nine months ended	
	30 September		30 September	
	2020	2019	2020	2019
Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Other comprehensive income/(expense)				
Item that may be reclassified subsequently to profit or loss				
Exchange difference on translation of financial statements of foreign operations	<u>16,956</u>	<u>(16,406)</u>	<u>8,220</u>	<u>(17,435)</u>
Other comprehensive income/(expense) for the period, net of tax	<u>16,956</u>	<u>(16,406)</u>	<u>8,220</u>	<u>(17,435)</u>
Total comprehensive (expense)/income for the period	<u><u>(48,125)</u></u>	<u><u>(87,821)</u></u>	<u><u>632,954</u></u>	<u><u>(264,482)</u></u>
(Loss)/profit for the period attributable to:				
Owners of the Company	<u>(64,866)</u>	<u>(71,110)</u>	<u>625,426</u>	<u>(246,404)</u>
Non-controlling interests	<u>(215)</u>	<u>(305)</u>	<u>(692)</u>	<u>(643)</u>
	<u><u>(65,081)</u></u>	<u><u>(71,415)</u></u>	<u><u>624,734</u></u>	<u><u>(247,047)</u></u>
Total comprehensive (expense)/income for the period attributable to:				
Owners of the Company	<u>(48,125)</u>	<u>(87,516)</u>	<u>633,431</u>	<u>(263,839)</u>
Non-controlling interests	<u>-</u>	<u>(305)</u>	<u>(477)</u>	<u>(643)</u>
	<u><u>(48,125)</u></u>	<u><u>(87,821)</u></u>	<u><u>632,954</u></u>	<u><u>(264,482)</u></u>
Earnings/(loss) per share				
Basic and diluted	<u><u>8 (HK2.92 cents)</u></u>	<u><u>(HK1.43 cents)</u></u>	<u><u>HK10.89 cents</u></u>	<u><u>(HK5.10 cents)</u></u>

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to the owners of the Company

	Share capital	Share premium	Special reserve	Contributed surplus	Properties revaluation reserve	Translation reserve	Share option reserve	Convertible bond equity reserve	Accumulated losses	Subtotal	Attributable to non-controlling interests	Total
	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>
At 1 January 2019 (Audited)	451,716	804,495	6,302	78,791	335,013	(131,671)	41,912	-	(1,441,615)	144,943	232	145,175
Share issued upon exercise of share options	224	326	-	-	-	-	-	-	-	550	-	550
Share issued upon completion of placing of new shares	42,877	64,314	-	-	-	-	-	-	-	107,191	-	107,191
Transactions with owners	43,101	64,640	-	-	-	-	-	-	-	107,741	-	107,741
Loss for the period	-	-	-	-	-	-	-	-	(246,404)	(246,404)	(643)	(247,047)
Exchange difference on translation of financial statement of foreign operations	-	-	-	-	-	(17,435)	-	-	-	(17,435)	-	(17,435)
Total comprehensive expense for the period	-	-	-	-	-	(17,435)	-	-	(246,404)	(263,839)	(643)	(264,482)
At 30 September 2019 (Unaudited)	<u>494,817</u>	<u>869,135</u>	<u>6,302</u>	<u>78,791</u>	<u>335,013</u>	<u>(149,106)</u>	<u>41,912</u>	<u>-</u>	<u>(1,688,019)</u>	<u>(11,155)</u>	<u>(411)</u>	<u>(11,566)</u>
As at 1 January 2020 (Audited)	494,817	866,992	6,302	78,791	158,104	(146,299)	49,377	-	(1,938,824)	(430,740)	(543)	(431,283)
Lapse of share options	-	-	-	-	-	-	(3,016)	-	3,016	-	-	-
Issue of convertible bonds arising from the completion of financial restructuring	-	-	-	-	-	-	-	3,933	-	3,933	-	3,933
Share issued to the creditor upon completion of placing of new shares	215,512	183,185	-	-	-	-	-	-	-	398,697	-	398,697
Share issued by settlement of financial advisory fee for the completion of financial restructuring	25,000	25,000	-	-	-	-	(21,695)	-	-	28,305	-	28,305
Share issued by settlement of financial advisory fee for the Possible Offer (as defined below)	5,405	4,595	-	-	-	-	-	-	-	10,000	-	10,000
Transactions with owners	245,917	212,780	-	-	-	-	(24,711)	3,933	3,016	440,935	-	440,935
Profit for the period	-	-	-	-	-	-	-	-	625,426	625,426	(692)	624,734
Exchange difference on translation of financial statement of foreign operations	-	-	-	-	-	8,220	-	-	-	8,220	-	8,220
Total comprehensive income/(expense) for the period	-	-	-	-	-	8,220	-	-	625,426	633,646	(692)	632,954
As at 30 September 2020 (Unaudited)	<u>740,734</u>	<u>1,079,772</u>	<u>6,302</u>	<u>78,791</u>	<u>158,104</u>	<u>(138,079)</u>	<u>24,666</u>	<u>3,933</u>	<u>(1,310,382)</u>	<u>643,841</u>	<u>(1,235)</u>	<u>642,606</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

National Arts Entertainment and Culture Group Limited was incorporated in the Cayman Islands on 16 November 2001 as an exempted company under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. On 14 October 2010, the Company deregistered in the Cayman Islands and duly continued in Bermuda as an exempted company under the laws of Bermuda effective on 14 October 2010. The registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The Company's principal place of business in Hong Kong is Room 1514– 1515, 15/F., Seapower Tower, Concordia Plaza, No.1 Science Museum Road, Tsim Sha Tsui, Kowloon, Hong Kong.

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

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

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements of the Group have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (“**GEM Listing Rules**”), including compliance with Hong Kong Accounting Standard (“**HKAS**”) 34 Interim Financial Reporting and Interpretation issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the disclosure requirements set out in Chapter 18 of the GEM Listing Rules.

On 10 July 2019, the Company invited all known creditors of the Company to make an offer to the Company for possible restructuring transaction, which has received substantial support from most of the creditors. On 26 August 2019, the Company put forward the proposed scheme of arrangement pursuant to Section 99 of the Companies Act 1981 of Bermuda and Section 670 of the Companies Ordinance (Cap. 622) of Hong Kong, further details of which are disclosed on pages 16 to 22 of this announcement and the Company's announcements dated 30 July, 12 August, 19 August, 20 September, 8 October, 14 October, 8 November, 19 November, 27 November, 15 December 2019, 7 January, 25 February, 6 March, 20 March, 31 August 2020, the circular of the Company dated 20 September 2019, the poll results announcement dated 10 October 2019 and the next day disclosure returns of the Company dated 30 June 2020 and 3 August 2020. Further announcements will be made by the Company to update the shareholders of the Company and investors on further progress of the financial restructuring and relevant court proceedings.

The unaudited consolidated results for the nine months ended 30 September 2020 should be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2019.

3. REVENUE AND OTHER INCOME

Revenue derived from the Group's principal activities recognised during the period is as follows:

	Three months ended		Nine months ended	
	30 September		30 September	
	2020	2019	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue from contracts with customers				
within the scope of HKFRS 15,				
disaggregated by major products or				
services lines:				
Artiste management fee	51	7	58	34
Hotel room income	3,499	2,742	6,587	9,548
Food and beverage income	3,698	4,830	9,962	17,430
Entrance fee income	1,244	18,607	4,617	53,691
Sales of travel related products	–	1,300	313	3,708
Sales of goods	3	480	104	2,108
Ancillary services	357	2,958	1,426	13,181
Consultation income	–	–	–	105
Films production and licensing income	567	–	567	–
	<u>9,419</u>	<u>30,924</u>	<u>23,634</u>	<u>99,805</u>
Rental income	<u>911</u>	<u>12,349</u>	<u>2,911</u>	<u>32,775</u>
	<u>10,330</u>	<u>43,273</u>	<u>26,545</u>	<u>132,580</u>
Timing of revenue recognition:				
At a point of time	4,944	25,216	14,995	76,937
Over time	5,386	18,057	11,550	55,643
	<u>10,330</u>	<u>43,273</u>	<u>26,545</u>	<u>132,580</u>
Other income				
Bank interest income	1	1	1	29
Government subsidy	95	–	4,236	–
Others	(763)	1,245	4,937	3,174
	<u>(667)</u>	<u>1,246</u>	<u>9,174</u>	<u>3,203</u>

4. FINANCE COSTS

	Three months ended		Nine months ended	
	30 September		30 September	
	2020	2019	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Finance lease charges	436	437	1,265	1,321
Interest on bonds	1,190	28,004	42,681	131,258
Interest on convertible bonds	19,717	–	20,223	–
Interest on promissory note	–	2,093	–	6,279
Interest on loan from shareholders	–	12,208	33,919	39,948
Interest on unsecured other borrowings	502	1,036	3,032	3,939
Interest on secured other borrowings	–	–	5,334	5,269
	<u>21,845</u>	<u>43,778</u>	<u>106,454</u>	<u>188,014</u>

5. IMPACT OF FINANCIAL RESTRUCTURING

	Three months ended		Nine months ended	
	30 September 2020		30 September 2020	
	2020	2019	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Carrying amount of liabilities settled by issue of convertible bonds and new shares under the restructuring transaction	–	–	2,082,419	–
Fair value of convertible bonds issued pursuant to the restructuring transaction	–	–	(829,454)	–
Fair value of new shares issued pursuant to the restructuring transaction	–	–	(398,696)	–
Equity settled share based payment expenses	(28,305)	–	(28,305)	–
	<u>(28,305)</u>	<u>–</u>	<u>825,964</u>	<u>–</u>

The fair value of the convertible bonds is determined by the directors of the Company with reference to the valuation report prepared by an independent professional valuer, by applying discounted cash flow model on the liability component and Binomial Tree Model on the equity component and derivative component, if any.

6. (LOSS)/PROFIT BEFORE INCOME TAX

	Three months ended		Nine months ended	
	30 September		30 September	
	2020	2019	2020	2019
	HKD\$'000	HKD\$'000	HKD\$'000	HKD\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
(Loss)/profit before income tax is arrived at after charging:				
Auditor's remuneration	250	213	750	638
Depreciation of right-of-use assets	3,440	3,440	10,318	10,318
Depreciation of property, plant and equipment	2,129	2,937	29,643	34,755
	<u>2,129</u>	<u>2,937</u>	<u>29,643</u>	<u>34,755</u>
Employee benefit expenses (including directors' remuneration)				
Salaries and allowances	17,810	14,473	40,211	40,219
Contributions to retirement benefits schemes	100	1,001	1,211	3,120
	<u>17,910</u>	<u>15,474</u>	<u>41,422</u>	<u>43,339</u>

7. INCOME TAX EXPENSE

Hong Kong Profits Tax has not been provided for the nine months ended 30 September 2020 (2019: Nil) as the Group did not generate any assessable profits in Hong Kong during these periods.

The People's Republic of China ("PRC") Enterprises Income Tax at 25% has not been provided as the PRC subsidiaries incurred losses for taxation purpose for both periods.

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

8. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the profit attributable to the owners of the Company of approximately HK\$625,426,000 (2019: loss of approximately HK\$246,404,000) and the weighted average of approximately 5,744,948,000 (2019: approximately 4,828,109,000) ordinary shares in issue during the period.

Diluted earnings/(loss) per share for the profit/(loss) attributable to the owners of the Company for the nine months ended 30 September 2020 and 2019 was the same as basic earnings/(loss) per share as the impact of the exercise of the share options, warrants and convertible bonds is anti-dilutive.

9. DIVIDEND

The Directors do not recommend payment of dividend for the nine months ended 30 September 2020 (2019: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The revenue for the period under review decreased to approximately HK\$26.55 million from approximately HK\$132.58 million for the nine months ended 30 September 2019, representing a decrease of approximately HK\$106.03 million. The decrease in revenue was mainly attributable to the temporary suspension (the “**Temporary Suspension**”) of the operation of the Group’s Xiqiao National Arts Film Studio (the “**Studio**”) and National Arts Resort Hotel (the “**Hotel**”, collectively with the Studio, the “**Xiqiao National Arts Film Studio Project**”) since 24 January 2020 and 29 January 2020 respectively as a result of the precautionary policies and measures implemented by the Guangdong provincial government to deter the spread of novel coronavirus (“**COVID-19**”) pandemic in the PRC. The operation of the Studio and the Hotel was resumed from 16 May 2020.

Staff costs for the period under review decreased to approximately HK\$41.42 million from approximately HK\$43.33 million for the nine months ended 30 September 2019, representing a decrease of approximately HK\$1.91 million. Such decrease was mainly due to the Temporary Suspension during the period under review.

Finance costs for the period under review decreased to approximately HK\$106.45 million from approximately HK\$188.01 million for the nine months ended 30 September 2019. The decrease was mainly attributable to the maturity of bonds. Interest expenses of approximately HK\$79.63 million included in the finance costs were accrued interest on bonds, loan from shareholders and unsecured other borrowings, which were settled by way of issuance of convertible bonds and new shares of the Company on 29 June 2020 pursuant to the Group’s restructuring transactions.

Other operating expenses for the period under review decreased to approximately HK\$50.4 million from approximately HK\$78.36 million for the nine months ended 30 September 2019. Such decrease of approximately HK\$27.96 million was mainly due to the Temporary Suspension during the period under review.

Impact of financial restructuring of approximately HK\$825.96 million was recorded during the period under review. Such impact arose from the difference between the carrying amount of liabilities settled of approximately HK\$2,082.42 million and the fair value of the convertible bonds and the new shares of the Company issued of approximately HK\$1,228.15 million and equity settled share-based payment expenses of approximately HK\$28.31 million under the Group’s restructuring transaction, details of which are set out in the paragraphs headed “Restructuring Transaction” and “Scheme of Arrangement” below. Nevertheless, the impact was non-cash item and does not have any real impacts on the operations and cash flows of the Group during the period under review.

For the nine months ended 30 September 2020, the Group recorded a net profit of approximately HK\$624.73 million as compared to a net loss of approximately HK\$247.05 million for the nine months ended 30 September 2019. Such increase in the net profit was mainly due to the impact of financial restructuring during the period under review.

BUSINESS REVIEW

Xiqiao National Arts Studio Project

Located in Foshan City, Guangdong Province, the Xiqiao Natural Arts Film Studio Project has the view of Mount Xiqiao which is known as one of the national 5-star tourist attractions and has total developed land area of 444,000 square meters. There are unique film shooting areas throughout the Studio along with theme parks, hotel and performing arts complexes. The Studio incorporates sightseeing and recreational facilities which make it the most international vacation resort in Guangdong Province. The Studio has opened a new theme park named “The Snow Queen Theme Park”, and successfully organised a number of events, including “潮拜星春匯國藝”, “國潮穿越運動會”, “The 6th Wing Chun Competition”, “International Youth Film and Culture Internship Programme” and “Christmas Carnival”. Overall, the total attendances of the Studio in 2019 were approximately 1,200,000.

In addition, the Group also established the National Arts Brilliant Emperor Cinematic Action Stunt Training Center (國藝輝煌電影動作特技培訓中心), which combines films, culture and tourism and teaching activities, aiming to nurture the next generation of movie stars. Meanwhile, the Group has participated in several charity groups on education. The Studio cooperated with charitable organisations such as Caritas and Po Leung Kuk to organise study group events for students to participate and to explore different culture and film production in the Studio.

The Groups believes that the events held by the Group will effectively improve the brand awareness of the Studio and will push the Xiqiao National Arts Film Studio Project to the peak.

Travel

National Arts Travel Limited (“**NA Travel**”) has been established and commenced its business since 2015. It provides one-stop travel services especially for major organizations, associations and tourists with “Diversification, Professionalism, and Internationalism” as their principles, and formulates flexible and comfortable travel plans and personalized products. To enhance the comprehensive customer support and increase the travel agency’s market competitiveness, NA Travel has updated its inquiry and sales system in 2018. In addition to optimizing traditional group tours, travel insurance, international flight and hotel booking, it also organises customized group tours, providing extraordinary experience for travelers, including private tours, business trainings and activities, honeymoon and wedding plans, cruise vacations, professional and featured tours, etc. In 2019, NA Travel initiated the “Charity Tours” (「慈善之旅」) in Zhaoqing and Foshan for large organizations to support corporate social responsibilities, and also arranged “Trip to Resort of National Arts Studio” (「國藝影視旅遊度假區之旅」) for disabled group.

In addition, in order to diversify the current product lines, NA Travel established “Skyyer Travel” in 2018 through the Travel Industry Council of Hong Kong. “Skyyer Travel” presents a fresh brand image with the slogan “What Travel means is you decide to go and take action! (旅遊就是想閃。就閃)”. It specializes in designing “Tailor-made tours for sport, hobby and industry” and invites various celebrities as guests to create “Star-class Travel” which categorizes into Sport-themed Travel (golfing, marathon, cycling, basketball, table tennis, darts, kung fu, swimming, diving, dragon boat, yoga, dancing), Art-themed Travel (painting, photography, tea ceremony, music), Taste-themed Travel (food and wine tasting), Religion-themed Travel (Christianity, Buddhism, Taoism), etc., providing customers with unique experiences of in-depth tours. In 2019, To make its products more international and specialized, “Skyyer Travel” expanded beyond Asia for the first time and entered regions in Europe and the Middle East, including seeking the famous red wine producing areas in Bordeaux, France, visiting luxury and world-renowned buildings in Dubai and Abu Dhabi. Meanwhile, “Skyyer Travel” organized “Theme Activity Travel”, including international darts tournament, wing chun tournament, hung kuen tournament, concert and beauty contest, etc. In the third quarter of 2019, “Skyyer Travel” also participated in a Sports Expo and held “Skyyer Travel Brand and Outstanding Athlete Award Ceremony” for the first time in order to achieve branding and marketing effects.

In order to align with the current education blueprint of “Broadening horizon and life-long learning”, NA Travel established “National Arts Cultural Study Tour Expert (國藝文化遊學專家)” through the Travel Industry Council of Hong Kong at the beginning of 2019, which specializes in assisting primary and secondary schools, universities, social groups and institutions to plan and organize different cultural exchange and education activities with foreign counterparts. Under the mission that “Study tours are provided to broaden horizon, acquire knowledge, and have real experience” and the philosophy of “exploring the world, making friends and enriching life”, it provides professional itinerary advice and considerate services, coupled with new elements, including trainings for language, interests, history, arts, science and technology, leadership and team building. Study tours cover Foshan, Shenzhen, Guangzhou, Shanxi in China, Taiwan, Korea, Singapore, etc. The goal is to make sure that every participant will have an unforgettable experience. In order to align with the development of the Greater Bay Area, National Arts Cultural Study Tour Expert organized a corporate inspection delegation themed “Greater Bay Area Youth Entrepreneurship Tour” spanning Shenzhen, Guangzhou, Foshan and Dongguan in late 2019, which broke with traditional tourist routes for scenic spots, instead, it opened a new era for entrepreneurs to study and exchange in famous enterprises. In the coming future, National Arts Cultural Study Tour Expert will set to input more resources to develop the Greater Bay Area, so as to embrace new market trends.

Furthermore, at the end of 2019, NA Travel and National Arts Cultural Study Tour Expert entered into a “Greater Bay Area Strategic Cooperation Agreement” with a media organization, aiming to implement a number of Greater Bay Area cultural and business exchanges and inspection activities, and assist industrial leaders and potential elites to have a deeper understanding on the unique culture and local customs and practices of the “9+2” cities in the Greater Bay Area, so that they can be well prepared to cultural differences before tapping into the Greater Bay Area market.

In order to give our customers a better understanding on the products and policies of the travel agency, the Marketing Department and the Tourism Department jointly launched various travel publications, including: “Special Edition for Guangdong-Hong Kong-Macao Greater Bay Area (five themes: Corporate Exchange, Volunteer Services, Team Building, Experience Activities, Exploring the Ancients and Seeking its Origin)”, “Guidebook for Skyyer Theme Travel Collection”, “Study Tour Special Edition for National Arts Cultural Study Tour Expert”, “Recommendation for Special Package Tour of NA Travel”, etc.

Currently, NA Travel has expanded its digital marketing business in all directions. Particularly, NA Travel entered into a “Platform Cooperation Agreement” with a travel platform operated by a large Chinese-funded institution in early 2020. In the future, NA Travel will also focus on tourism technology to tap into their huge market potential.

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

Film Shooting Base

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

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

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

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

Wedding Photography

The Group reached an agreement with a renowned domestic wedding photography chain group in the fourth quarter of 2013 to develop its wedding photography business. Pursuant to the agreement, the Group leased the Studio with an area of approximately 20 mu (13,333.33 square meters) for a term of 12 years and the wedding photography company invested RMB10 million for the construction of scenic spots in different styles such as European, Korean and Japanese styles and guarantee there will be at least 28,800 couples taking wedding photos in the scenic spots per year. The annual income of this arrangement will be not less than approximately RMB1.2 million starting from 2016.

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

Hotel

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

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

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

Film Production

The Group spared no effort in promoting entertainment culture for many years such as production of and investment in movie, microcinema and online TV programme to promote the culture and the spirit of entertainment. During 2016, the Group invested in the production of a charity film named “Our Days in 6E” (我們的6E班). The theme of “Our Days in 6E” is in line with the current social status, laden with educational significance as part of its social responsibility. In 2019, the Group has invested in the production of a modern romantic film named “Romantic Marriage?” (婚姻的童話?). The Group expects to invest more in the production of films of various themes with an intention to step forward to the diversified film market. In addition, the Group held various courses from time to time to cultivate the next generation of film producers and actors in order to encourage the development of film production and contribute to the betterment of the film industry. With regard to the prospects of film production of the Group, the Group will step forward in respect of Hong Kong-Mainland film production and maintain a position in the film industry in Southern China.

Cinema

National Arts Films Production Limited (“NA Films”), an indirectly wholly-owned subsidiary of the Company, entered into a joint venture agreement for the development of cinema business in a large shopping mall in a transportation hub area of Zhuhai, Guangdong, the PRC in 2012. NA Films held 60% equity interest in the joint venture. The cinema boasts eight screens and a total of more than 730 seats. The cinema has commenced its operation since May 2014 which supports further comprehensive development of the Group’s entertainment and culture business.

Artiste Management

To enhance the popularity of the Group’s artists such as Rose Chan and Brian Yuen, the Group has arranged a variety of performance opportunities including the participation in the charity movie, “Our Days in 6E” (我們的6E班), the romantic movie, “Romantic Marriage?” (婚姻的童話?), the online TV series “OCTB” (反黑), brand representative, dramas such as “Guardian Angel” (守護神之保險調查) and TV game shows host of the Lunar New Year Celebration, and guest performers for the “New Year is A Game” (大玩特玩) and “Cooking Beauties” (美女廚房). Besides, the Group also explores the PRC market for its artists by making arrangement for them to participate in live reality show and online drama to enhance their popularity. With the huge market of domestic movies, the Group will continue to recruit artists with potential in the future to cope with the demands in the vast market and expand the artiste management segment, hoping that it will become one of the major income sources of the Group.

Foreign Currency Exposure

The Group’s reporting currency is expressed in Hong Kong dollars. During the nine months ended 30 September 2020, most of the transactions, assets and liabilities of the Group were denominated in Hong Kong dollars and Renminbi. During the period under review, since the Group had both Hong Kong dollars and Renminbi receipts and payments, the net Renminbi exposure was not significant. The Board considers that the Group’s exposure to foreign exchange risk was not significant, therefore, no hedging transaction was made during the period under review.

Impact of COVID-19 Pandemic to the Group

Due to the outbreak of COVID-19 pandemic, the operation of the Studio and the Hotel has been temporarily suspended since 24 January 2020 and 29 January 2020 respectively. In view of the relief of the epidemic in the PRC, the operation of the Studio and the Hotel has resumed from 16 May 2020.

For the nine months ended 30 September 2019, the Studio and the Hotel contributed over 80% of the Group's revenue by means of hotel room income, food and beverage income, rental income and entrance fee income. With the Temporary Suspension, the Group's revenue for the nine months ended 30 September 2020 decreased drastically when compared to that for the nine months ended 30 September 2019. Nevertheless, following the Temporary Suspension, the direct costs of the Group were also reduced and the Group has been operating at minimal costs so as to maintain its necessary operation. As a result, the Group's liquidity was not severely worsened due to the outbreak of COVID-19 pandemic during the nine months ended 30 September 2020. The principal business of the Group is in the entertainment industry, which is an area severely affected by the outbreak of COVID-19 pandemic. Shall the outbreak of COVID-19 pandemic continue, the Group's loss position as well as liquidity may be worsened due to the loss of revenue from the Studio and the Hotel. Despite the above, the financial restructuring transaction and fund raising activity of the Group mentioned in this announcement below shall be able to ease the funding difficulties of the Group. The Company will continuously assess and update its shareholders and potential investors of material developments in relation to COVID-19 pandemic.

Future Prospect

Against the backdrop that China's film-induced tourism is at the development stage, the Group is committed to the further development of the Second Phase Project in order to compete with its peers in face of the upward trend in both tourism industry and film industry.

The Group believes that the Second Phase Project is essential and the Second Phase Project will include (i) the construction of indoor studios; (ii) cooperation with resourceful company in providing high-tech equipment, props, etc, and (iii) new boutique hotels. The Group expects that there will be more shooting crews to film and tourists to visit in the Studio after the Studio has been improved. Besides, in the short term, the Studio will also focus on education such as providing more tours to the students. In the long term, the Group will consider building a film production school for giving opportunities to any person who is interested in and passionate about film industry such as post-production and actor training. Overall, the Group believes that better land use planning and provision of supporting facilities will allow the Studio to become a comprehensive film studio in the foreseeable future. In recent years, tourism has experienced continuous growth. With the advent of the leisure era, the Group believes that film-induced tourism will present a promising prospect, advancing in a direction characterized by diversified tourist attractions, individualized tourists, updated tourism contents and integrated planning and construction.

WINDING UP PETITION AND APPOINTMENT OF JOINT PROVISIONAL LIQUIDATORS

To facilitate the Company's financial restructuring, on 14 June 2019, a winding up petition together with the application for the appointment of joint provisional liquidators (the "**JPLs**") of the Company on a light touch approach for restructuring purposes (the "**JPL Application**") was presented and filed with the Supreme Court of Bermuda (the "**Bermuda Court**") by the Company's Bermuda Counsel, Conyers Dill & Pearman at the request of the Company.

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

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

By an order of the Honourable Mr. Justice Wilson Chan dated 15 August 2019, (i) the appointment of the JPLs pursuant to the order of the Bermuda Court dated 14 June 2019 was recognized by the High Court of Hong Kong with the powers conferred therein and (ii) the Company shall be permitted to register the transfer of fully paid up shares in the Company. As such, a court order has been in place to allow the transfer of fully paid up shares of the Company.

RESTRUCTURING TRANSACTION

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

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

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

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

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

SCHEME OF ARRANGEMENT

As announced on 19 August 2019, the Company proposes to implement, subject to the approval by the Bermuda Court and the Hong Kong Court, the scheme of arrangement (the “**Scheme**”). Under the Scheme, the Company will issue the New Shares and the Convertible Bonds to the creditors of the Company (the “**Creditors**”) to discharge and release the debt owing by the Company to the Creditors in full (the “**Claims**”).

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

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

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

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

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

Based on the final amounts of Claims of each Creditor, on 29 June 2020, 2,155,114,938 New Shares were allotted and issued and Convertible Bonds in the aggregate principal amount of HK\$1,244,876,198 were issued to the Creditors.

Upon the issue of the New Shares and Convertible Bonds, all the Claims of the Creditors have been discharged and extinguished and the Creditors are not allowed to make any claim against the Company in respect of their Claims.

Issue of New Shares and Convertible Bonds under Specific Mandate

On 29 June 2020, completion of the Share Subscription and the CB Subscription took place, under which the Company (i) allotted and issued, in aggregate, 2,115,114,938 New Shares at the issue price of HK\$0.38 per New Share for settlement of 40% of the Claims held by the Creditors against the Company as at the Restructuring Order Date which have been admitted by the scheme administrators (the “**Admitted Claims**”) of the Creditors; and (ii) issued the Convertible Bonds in the aggregate principal amount of HK\$1,244,876,198.

Details of the Share Subscription

The New Shares allotted have an aggregate nominal value of up to HK\$211,511,493.8. The issue price of HK\$0.38 per New Share represents a premium of approximately 84.47% over the closing price of HK\$0.206 per Share as quoted on the Stock Exchange on 19 August 2019. The New Shares are subject to a lock-up period of 12 months from the date of completion of the Share Subscription.

Details of the CB Subscription

The value of the Convertible Bonds issued to the Creditors was approximately HK\$1,244,876,198, being the sum of (i) up to approximately HK\$1,228,415,625 for the aggregation of 60% of the Claims of the Creditors and (ii) HK\$16,460,573 for the consent bonus (the “**Consent Bonus**”) (being an extra one (1) per cent of the outstanding principal amount of an eligible Creditor’s debt (where applicable, together with interests accrued thereon and calculated up to the Restructuring Order Date at the respective annual interest rate of the relevant debt(s)) to be awarded to the eligible Creditors in accordance with the terms of the Scheme). Assuming the exercise in full of the conversion rights (the “**Conversion Rights**”) attached to the Convertible Bonds at the initial conversion price of HK\$0.55 per Conversion Share, an aggregate of 2,263,411,269 Shares (with an aggregate nominal value of HK\$226,341,126.9) will be issued. The maturity date of the Convertible Bonds falls on the day being the fifth (5th) anniversary of the issue date of the Convertible Bonds (“**Maturity Date**”). Subject to the terms and conditions of the Convertible Bonds, the conversion price will initially be HK\$0.55 per share, but subject to customary adjustments including but not limited to (i) consolidation or subdivision; (ii) rights issue of shares or rights to acquire shares; (iii) issues of convertible securities; (iv) modification of rights of conversion; (v) other offers to shareholders; and (vi) other events. The initial conversion price of HK\$0.55 per Conversion Shares represents a premium of approximately 166.99% over the closing price of HK\$0.206 per Share as quoted on the Stock Exchange on 19 August 2019.

The Convertible Bonds bear interest at 1% annual coupon rate payable annually from the issue date of the Convertible Bonds. The conversion period of the Convertible Bonds is from 29 June 2023 to 28 June 2025 during which period the holders of the Convertible Bonds can convert the Convertible Bonds into shares of the Company, provided that no holder of the Convertible Bonds shall exercise any conversion rights attached to the Convertible Bonds to the extent that immediately after such conversion (i) the holder of the Convertible Bonds together with parties acting in concert with it, taken together, will, directly or indirectly, control or be interested in 30% or more of the voting rights of the Company (or such percentage as may from time to time be specified in the Hong Kong Code on Takeovers and Mergers as being the level for triggering a mandatory general offer) or otherwise being obliged to make a general offer for Shares in accordance with the requirement of the Hong Kong Code on Takeovers and Mergers or (ii) there will not be sufficient public float of the Shares as required under the GEM Listing Rules.

Unless previously redeemed, converted, purchased or cancelled, the Company will redeem all of the Convertible Bonds on the Maturity Date at such amount equivalent to the principal amount of the outstanding Convertible Bonds (inclusive of interests received up to the Maturity Date).

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

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

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

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

Mr. Sin is an executive Director, the chairman of the Board, a member of the nomination committee of the Board and a substantial shareholder of the Company. Ms. Law, being the spouse of Mr. Sin, is an associate of Mr. Sin. Immediately before the issue of the New Shares and the Convertible Bonds, Mr. Sin, together with his associate, Ms. Law, was interested in 871,932,623 Shares, representing approximately 17.62% of the total issued share capital of the Company immediately before the issue of the New Shares and the Convertible Bonds.

Mr. Chow is an executive Director, the associate chairman of the Board and chief executive officer of the Company. Immediately before the issue of the New Shares and the Convertible Bonds, Mr. Chow was interested in 1,000,000 Shares, representing approximately 0.02% of the total issued share capital of the Company immediately before the issue of the New Shares and the Convertible Bonds.

Mr. Tse is a substantial shareholder of the Company. Immediately before the issue of the New Shares and the Convertible Bonds, Mr. Tse was interested in 563,547,600 Shares, representing approximately 11.39% of the total issued share capital of the Company immediately before the issue of the New Shares and the Convertible Bonds.

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
	<hr/>
	714,837,958
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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 Scheme and based on the available books and records of the Company, the entitlement of Mr. Sin, Ms. Law, Mr. Chow and Mr. Tse under the Scheme respectively are as follows:

	Mr. Sin	Ms. Law	Mr. Chow	Mr. Tse
Share Subscription				
Value of New Shares 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 issued	681,403,362	30,811,311	38,254,139	1,992,193
	New Shares	New Shares	New Shares	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 Claims of Mr. Sin, Ms. Law, Mr. Chow and Mr. Tse have been discharged pursuant to the Scheme and the treatment to be received by them under the Scheme is the same as those to other Creditors.

Upon completion of the connected transactions, Mr. Sin (together with his associate, Ms. Law), Mr. Chow and Mr. Tse are respectively interested in 1,584,147,296 Shares, 39,254,139 Shares and 565,539,793 Shares, representing approximately 21.54%, 0.53% and 7.69% of the total issued share capital of the Company as enlarged by the allotment and issuance of the New Shares and the OPAL Fee Shares (as defined below).

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

As disclosed in the Company's announcement dated 26 August 2019 and the circular of the Company dated 20 September 2019, the Company has appointed Oriental Patron Asia Limited ("OPAL"), a licensed corporation to carry out type 1 (dealing in securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, as the financial adviser to the Company (the "**Appointment of Financial Adviser**") to advise on and assist in formulating and overseeing a potential financial restructuring as to improving the Company's financial position. Regarding the payment of advisory fee (the "**Advisory Fee**"), after arm's length negotiations, OPAL agreed to receive the newly issued shares of the Company to settle the Advisory Fee. On 26 August 2019, the supplemental mandate letter (as to supplement the original mandate letter signed in May 2019) has been entered into between the Company and OPAL, pursuant to which the Advisory Fee was agreed to be paid by the Company to OPAL in the form of issuing and allotting 250,000,000 newly issued and fully paid-up Shares (the "**OPAL Fee Shares**") which is subject to a lock-up period of 12 months from the date of the issuance and such OPAL Fee Shares were issued and allotted to OPAL simultaneously with the New Shares issued to the Creditors under the Scheme on 29 June 2020. The 250,000,000 OPAL Fee Shares were allotted and issued to OPAL on 3 August 2020.

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

Further details of the Scheme are set out in the Company's announcements dated 19 August 2019, 8 October 2019, 14 October 2019, 8 November 2019, 19 November 2019, 27 November 2019, 15 December 2019, 7 January 2020, 25 February 2020, 6 March 2020, 20 March 2020, the circular of the Company dated 20 September 2019, the poll results announcement of the Company dated 10 October 2019 and the next day disclosure returns of the Company dated 30 June 2020 and 3 August 2020.

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

On 13 March 2020, the Company entered into an agreement (the "SSF Agreement") with, among others, GEM Global Yield LLC SCS (the "Investor") (as amended and supplemented by the supplemental agreements dated 27 July 2020 and 29 August 2020 respectively), pursuant to which

- (1) The Investor has agreed to grant the Company, the share subscription facility (the "**Share Subscription Facility**") and an option (the "**Option**") to require the Investor to subscribe for Shares (the "**Option Shares**") of up to HK\$2,350,000,000 (the "**Total Commitment**") in value at the Subscription Price (as defined below) during the period commencing on the date of the SSF Agreement and expiring on the earlier of: (a) the third anniversary of the date of the SSF Agreement (the "**Commitment Period**"); and (b) the date on which the Investor has subscribed for shares in the Company with an aggregate subscription price of HK\$2,350,000,000 (excluding shares to be issued upon exercise of the Warrants (as defined below) pursuant to the SSF Agreement; and

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

It is also provided in the SSF Agreement (as supplemented and amended) that:

- (1) the maximum shareholding of the Investor (or its associates (as defined in the GEM Listing Rules)) in the Company shall in any event be less than 10% of the issued share capital of the Company such that the Investor will not become a substantial shareholder (as defined in the GEM Listing Rules) and a connected person (as defined in the GEM Listing Rules);
- (2) in the event that the Determined Price (as defined below) is higher than the Floor Price (as defined below) and the Minimum Threshold Price (as defined below), the Investor shall be obliged to subscribe for a number of Shares which is not less than 50% and not more than 200% of the Pricing Period Obligation (as defined in the SSF Agreement) at the Determined Price; and
- (3) in the event that the Determined Price is lower than the Floor Price or the Minimum Threshold Price, no Option Shares will be issued to the Investor by the Company.

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

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

Subscription Price shall mean the higher of (i) the Determined Price; (ii) the Floor Price; and (iii) the Minimum Threshold Price.

Determined Price shall mean 90% of the average of the closing bid prices during the pricing period, ignoring for the purposes of such calculation any Knockout Day.

Floor Price shall mean the price fixed at a discount of 20% to the benchmarked price (as referred and defined in Rule 17.42B of the GEM Listing Rules) of the Share.

Minimum Threshold Price shall mean HK\$0.19 per Share (subject to adjustment in case of subdivision or combination of Shares).

Knockout Day shall mean any trading day during a pricing period: (a) on which the Shares are not traded on GEM or trading of the Shares thereon is suspended for more than one hour; or (b) in respect of which the Investor has made an election to treat such trading day as a Knockout Day.

Option Shares and Warrant Shares

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

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

The Warrant Shares would be issued under specific mandate sought at SGM held on 5 October 2020 for the Shareholders to consider and approve the SSF Agreement and the transactions contemplated thereunder and the issue of the Warrant Shares.

Applications have been made by the Company to the Stock Exchange for the grant of the listing of, and permission to deal in the Warrant Shares.

The Company proposes to utilise the general mandate granted pursuant to a resolution passed by the Shareholders at the annual general meeting of the Company held on 30 July 2020 (or any other general mandates to allot and issue Shares approved by the Shareholders on a later date, collectively, the “**General Mandate**”) to the Directors to allot, issue and otherwise deal with new Shares not exceeding 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing such resolution to allot and issue the Option Shares which may be issued under the SSF Agreement.

If the existing General Mandate is fully utilised or is about to be fully utilised or the General Mandate is insufficient for the allotment and issuance of the Option Shares which may be issued in the next tranche(s) of subscription of the Option Shares, the Company will convene a special general meeting of the Company to obtain the Shareholders’ approval to refresh the General Mandate for the subsequent issuance of the remaining Option Shares. If the refreshment of the existing General Mandate is made pursuant to Rule 17.42A(1) of the GEM Listing Rules, a circular will be issued and the Company will seek approval of the refreshment of the General Mandate by the independent shareholders by way of an ordinary resolution at the special general meeting. The refreshment of general mandate of the Company is expected to continue until the Share Subscription Facility of HK\$2,350 million is fully utilised.

For each tranche of subscription of the Option Shares, an application will be made by the Company to the Stock Exchange for the grant of the listing of, and permission to deal in the Option Shares.

Reason for entering into the SSF Agreement

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

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

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

For each tranche of the subscription of the Option Shares, the Company will issue an announcement setting out the Subscription Price, the number of Option Shares to be subscribed by the Investor, the intended use of proceeds, the aggregate issued Shares and the balance of the General Mandate (as defined below) to keep the Shareholders and the potential investors informed.

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

Assuming the Total Commitment is received in full from issuance of the Option Shares, the gross proceeds (before expenses) and the estimated net proceeds will be HK\$2,350 million and HK\$2,278.5 million respectively.

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

- (a) up to HK\$250 million for repayment of the liabilities of the Group, including borrowings of HK\$64 million, trade payables of HK\$36 million, tax payable of HK\$20 million, rental payable of HK\$18 million, loan interests payable of HK\$16 million, payables to studio event business partners of HK\$27 million, construction cost payable of HK\$65 million and other payables of HK\$4 million;
- (b) up to HK\$200 million for general working capital of the Group, including restructuring cost of HK\$60 million, salaries of HK\$50 million, repair and maintenance of HK\$35 million, purchase of hotel materials of HK\$20 million, rental of HK\$10 million and other expenses of HK\$25 million;

- (c) up to HK\$328.5 million for expansion and upgrading of the Studio and the Hotel. The Company plans to construct six new film studios and two 3-star hotels with 800 rooms in aggregate adjacent to the existing facilities of the Group in Foshan City, Guangdong Province; and
- (d) up to HK\$1,500 million for investment in potential projects. Currently, the Company is exploring investment opportunities in business segments of promising prospect, including but not limited to virtual banking business, online e-commerce business and consumer finance business. As at the date of this announcement, the Company has not entered into any informal or formal agreement in respect of any acquisition targets. Further announcement will be made by the Company in respect of its acquisition(s) as and when appropriate in compliance with the GEM Listing Rules.

Assuming full issuance of the Warrant Shares, the estimated net proceeds will be approximately HK\$88 million, which is intended to be applied as to (i) HK\$70.4 million for early redemption of the Convertible Bonds; (ii) HK\$10 million for restructuring cost; and (iii) HK\$7.6 million for operating expenses relating to hotel and studio business in China.

The SSF Agreement and all actions taken or to be taken by the Company pursuant to the SSF Agreement were generally and unconditionally approved, ratified and confirmed and specific mandates was granted to the Directors to allot and issue 383,000,000 Warrant Shares at the exercise price of HK\$0.23 each (subject to adjustment) in the SGM held on 5 October 2020.

Details of the SSF Agreement, the issue of the Option Shares and the Warrants are set out in the Company's announcements dated 13 March 2020, 27 July 2020, 31 August 2020, the Company's circular dated 11 September 2020 and the Company's poll results announcement dated 5 October 2020.

PROPOSED CHANGE OF COMPANY NAME

The Board proposes to change the name of the Company from "National Arts Entertainment and Culture Group Limited" to "National Arts Group Holdings Limited" and adopt the Chinese name "國藝集團控股有限公司" as its official Chinese name ("**Change of Company Name**"). The Board will propose special resolution at the forthcoming SGM for considering, and if thought fit, approving the Change of Company. The reason for changing the Company's name is precisely to reflect the direction of the diversification of business in order to reduce the risk of single business segments. The Board believes that the proposed new English and Chinese names of the Company will provide the Company with better identification of the principal business of the Group. As such, the Board is of the view that the proposed Change of Company Name is in the interests of the Company and the Shareholders as a whole. The proposed Change of Company Name is subject to the following conditions: (i) the passing of the special resolution by the Shareholders at the SGM approving the Change of Company Name; and (ii) the Registrar of Companies in Bermuda approving the Change of Company Name and entering the proposed new English and Chinese name of the Company into the register of companies.

The special resolution approving the Change of Company Name was passed at the SGM held on 5 October 2020 by the Shareholders.

Subsequent to the passing of the special resolution in respect of the Change of Company Name by the Shareholders at the SGM, the Change of Company Name is still subject to the approval by the Registrar of Companies in Bermuda, which will take effect upon the date of the issue of a Certificate of Incorporation on the Change of Company Name by the Registrar of Companies in Bermuda. The Company will then carry out all necessary registration and filing procedures with the Companies Registry in Hong Kong. Further announcement(s) will be issued by the Company to inform the Shareholders of the effective date of the Change of Company Name, the new stock short names for trading of the securities of the Company on the Stock Exchange, the new logo and the new website of the Company as and when appropriate.

Further details of the proposed Change of Company Name are set out in the Company's announcement dated 23 March 2020, the Company's circular dated 11 September 2020 and the Company's poll results announcement dated 5 October 2020.

POSSIBLE OFFER FOR CONVOY GLOBAL HOLDINGS LIMITED

As disclosed in the Company's announcement dated 26 March 2020, the Board is discussing with certain shareholders of Convoy Global Holdings Limited (stock code: 1019) ("**Convoy**") in relation to a possible acquisition of the issued shares of Convoy (the "**Convoy Shares**") by the Company in the consideration of the Company's new shares (the "**Possible Share Exchange Transaction**"). The Possible Share Exchange Transaction did not proceed further.

Possible Offer

On 22 June 2020, the Board approached the board of directors of Convoy (the "**Convoy Board**") about a conditional voluntary share exchange offer by the Company to acquire all of the issued shares in the share capital of Convoy, subject to fulfilment of certain conditions (the "**Possible Offer**").

Following the approach, the Board is now discussing with the Convoy Board further details of the Possible Offer, including how and when the Possible Offer can be made, bearing in mind the financial and other information which would be required to be included in documentation to be sent to shareholders of the Company and Convoy in relation to the Possible Offer.

Based on the latest published audited accounts of Convoy for the financial year ended 31 December 2016, the Board expects that the Possible Offer, if it were to proceed, would constitute either a major transaction or a very substantial acquisition for the Company under Chapter 19 of the GEM Listing Rules. This would involve consent from shareholders of the Company and require publication of extensive financial information about Convoy and its subsidiaries which is not currently available.

On 14 August 2020, the Company received a letter from the Listing Division of the Stock Exchange informing the Company its decision that the Possible Offer will constitute a reverse takeover of the Company under Rule 19.06B of the GEM Listing Rules and the Company will be treated as a new listing applicant under Rule 19.54 of the GEM Listing Rules if the Possible Offer were to proceed (the “**Decision**”).

The Board disagrees with the Decision and has submitted a formal request to the Stock Exchange for a review of the Decision by the GEM Listing Committee of the Stock Exchange pursuant to Rule 4.06(1) of the GEM Listing Rules (the “**Review**”).

On 31 August 2020, the Company was informed by the Stock Exchange that the hearing for Review by the GEM Listing Committee of the Stock Exchange (the “**Review Hearing**”) is scheduled to take place on 4 November 2020. On 21 September 2020, the Company submitted a written submission setting out its arguments against the Decision to the GEM Listing Committee of the Stock Exchange for the Review Hearing.

The Company and Convoy will publish further announcement(s) regarding the Possible Offer and the transactions contemplated thereunder in compliance with the GEM Listing Rules, the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange and the Hong Kong Code on Takeovers and Mergers (the “**Takeovers Code**”) as and when appropriate.

For the purposes of the Takeovers Code, the offer period has commenced on 29 July 2020.

Shares of the Company to be issued to its financial adviser

The Company has appointed Yu Ming Investment Management Limited (“**Yu Ming**”), a licensed corporation to carry out types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities under the Securities and Futures Ordinance (Cap. 571), as financial adviser to advise the Company on the Possible Offer and transactions contemplated thereunder. Yu Ming is wholly-owned by Da Yu Financial Holdings Limited (Stock Code: 1073). Based on the best knowledge and belief of Yu Ming and the Company, Yu Ming’s ultimate substantial shareholders are third parties independent of the Company and its connected persons. As at the date of this announcement, Yu Ming is not interested in any of the Company’s shares or Convoy Shares. To preserve cash resources of the Company, the Company proposed to pay Yu Ming its financial advisory fees for the Possible Offer by way of issuing new shares of the Company (the “**Yu Ming Fee Shares**”) at the issue price of HK\$0.185, equivalent to the closing price of the Company’s shares on the last trading date prior to suspension of trading on 23 June 2020. A total of 54,054,054 Yu Ming Fee Shares were allotted and issued to Yu Ming on 13 August 2020.

The number of Yu Ming Fee Shares to be issued to Yu Ming is fixed and is not subject to any further changes. Yu Ming's advisory fee is non-refundable and not contingent upon the status or development of the Possible Offer and transactions contemplated thereunder. The Yu Ming Fee Shares will rank pari passu in all respects with the Company's shares in issue as at the date of issuance.

The Company also appoints Yu Ming to act as its financial adviser in respect of the Review and will pay Yu Ming's financial advisory fees of HK\$2,000,000 by way of issuing new shares of the Company at the issue price of HK\$0.121 per share. A total of 16,528,925 shares of the Company will be issued to Yu Ming (the "**Yu Ming Review Fee Shares**").

The number of Yu Ming Review Fee Shares to be issued to Yu Ming is fixed and is not subject to any further changes. Yu Ming's advisory fee is non-refundable and not contingent upon the outcome of the Review.

The Yu Ming Review Fee Shares will rank pari passu in all respects with the shares of the Company in issue as at the date of issuance and are intended to be allotted and issued under the general mandate granted to the Board on 30 July 2020. The issue and listing of, and permission to deal in, the Yu Ming Review Fee Shares are subject to approval from relevant regulators.

Details of the Possible Offer are set out in the Company's announcements dated 29 July 2020, 30 July 2020, 17 August 2020, 21 August 2020, 28 August 2020, 3 September 2020, 28 September 2020, 28 October 2020, 30 October 2020 and the next day disclosure return of the Company dated 13 August 2020.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the nine months ended 30 September 2020.

COMPETING INTERESTS

None of the Directors or controlling shareholders of the Company (as defined in the GEM Listing Rules) or their respective close associates had any interest, whether directly or indirectly, in a business which competes or may compete with the business of the Group during the nine months ended 30 September 2020.

AUDIT COMMITTEE

The Company has established the audit committee (“**Audit Committee**”) in 2002 with written terms of reference, which deal clearly with its authorities and duties. The primary duties of the Audit Committee are to review the Company’s annual reports and financial statements, interim reports and quarterly reports and discuss with the management over issues relating to auditing, internal control and financial reporting. As at 30 September 2020 and up to the date of this announcement, the Audit Committee comprises three independent non-executive Directors, namely Mr. Chui Chi Yun Robert (Chairman), Mr. Li Kit Chee and Mr. Lam Kwok Hing Wilfred. The Group’s unaudited results for the nine months ended 30 September 2020 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results has complied with applicable accounting standards and requirements and that adequate disclosures have been made.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance with sound and reasonable corporate governance practices and procedures with an aim of maximizing the shareholders’ interests as well as to enhancing the stakeholders’ transparency and accountability. In this respect, to the best knowledge of the Board, the Company has complied with all of the code provisions set out in the Corporate Governance Code contained in Appendix 15 of the GEM Listing Rules (“**Corporate Governance Code**”) then in force during the nine months ended 30 September 2020.

REQUIRED STANDARD OF DEALINGS FOR DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company throughout the nine months ended 30 September 2020.

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

Hong Kong, 10 November 2020

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

Chairman and executive Director:

Mr. Sin Kwok Lam

Associate Chairman, executive Director and Chief Executive Officer:

Mr. Chow Kai Weng

Executive Directors:

Mr. Cheng Wang Chun

Mr. Ho Leung Ting

Non-executive Director:

Dr. Lam Lee G.

Independent Non-executive Directors:

Mr. Chui Chi Yun Robert

Mr. Li Kit Chee

Mr. Lam Kwok Hing Wilfred

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

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