National Arts Group Holdings Limited
國藝集團控股有限公司

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

ANNOUNCEMENT OF UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

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

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

UNAUDITED FINANCIAL RESULTS

The Board (the "**Board**") of Directors (the "**Directors**") of National Arts Group Holdings Limited (the "**Company**") announces the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2021, together with the audited comparative figures for the previous year, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Notes	**2021** ***HK$'000*** **(Unaudited)**	2020 *HK$'000* (Audited)
Revenue			
– Goods and services	*4*	**73,280**	30,346
– Rental	*4*	**3,799**	8,837
		77,079	39,183
Other income	*4*	**3,616**	11,625
Staff costs	*6*	**(24,889)**	(53,372)
Other operating expenses		**(115,176)**	(55,656)
Operating loss		**(59,370)**	(58,220)
Depreciation of property, plant and equipment	*6*	**(24,672)**	(59,613)
Depreciation of right-of-use assets	*6*	**(15,018)**	(15,918)
Bad debt written off		**–**	(271)
Impairment loss on property, plant and equipment		**–**	(372,110)
Impairment loss on financial assets	*4*	**–**	(141,934)
Gain on financial restructuring		**–**	805,664
Equity-settled share-based payments		**–**	(12,000)
Net exchange gain		**23,899**	50,564
Share of loss of a joint venture		**(459)**	(2,390)
Finance costs	*5*	**(126,846)**	(150,281)
(Loss)/profit before tax	*6*	**(202,466)**	43,491
Income tax expenses	*7*	**–**	–
(Loss)/profit for the year		**(202,466)**	43,491

	Note	**2021**	2020
		HK$'000	*HK$'000*
		(Unaudited)	(Audited)
Other comprehensive (expense)/income:			
Item that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		**(10,652)**	19,379
Other comprehensive (expense)/income for the year, net of income tax		**(10,652)**	19,379
Total comprehensive (expense)/income for the year		**(213,118)**	62,870
Profit/(loss) for the year attributable to:			
Owners of the Company		**(202,331)**	44,662
Non-controlling interests		**(135)**	(1,171)
		(202,466)	43,491
Total comprehensive (expense)/income for the year attributable to:			
Owners of the Company		**(212,983)**	64,041
Non-controlling interests		**(135)**	(1,171)
		(213,118)	62,870
Earnings/(loss) per share			
Basic	*9*	**(HK3.44 cents)**	HK7.24 cents
Diluted	*9*	**(HK3.44 cents)**	HK5.52 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Notes	2021 HK$'000 (Unaudited)	2020 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment		**556,901**	545,148
Right-of-use assets		**335,080**	348,861
Investment properties		**99,232**	–
Investment in a joint venture		**–**	459
Long-term receivables and investment deposits		**111,077**	108,744
Pledged bank deposits		**2,449**	2,377
		1,104,739	1,005,589
Current assets			
Film products and film production in progress		**4,815**	4,936
Investment in films/dramas production		**325**	325
Trade receivables	*10*	**84,051**	5,556
Inventories		**919**	831
Prepayment, deposits and other receivables		**90,018**	76,103
Amount due from a joint venture		**2,414**	2,414
Cash and bank balances		**10,656**	12,601
		193,198	102,766
Current liabilities			
Trade payables	*11*	**114,618**	38,604
Other payables and accruals		**193,457**	129,678
Loans from shareholders		**9,500**	20,301
Borrowings		**85,538**	67,522
Lease liabilities		**2,268**	2,256
Promissory note		**32,653**	14,570
Tax payables		**2,951**	2,951
		440,985	275,882
Net current liabilities		**(247,787)**	(173,116)
Total assets less current liabilities		**856,952**	832,473

	2021	2020
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Non-current liabilities		
Borrowings	**122,021**	87,038
Convertible bonds	**972,862**	866,016
Promissory note	**20,118**	33,893
Loans from directors	**1,450**	–
Loans from shareholders	**77,854**	69,722
Lease liabilities	**35,003**	33,160
Other payables and accruals	**84,923**	60,382
	1,314,231	1,150,211
Net liabilities	**(457,279)**	(317,738)
Capital and reserves		
Share capital	**9,416**	742,387
Reserves	**(464,110)**	(1,057,675)
Equity attributable to owners of the Company	**(454,694)**	(315,288)
Non-controlling interests	**(2,585)**	(2,450)
Total Equity	**(457,279)**	(317,738)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

1. GENERAL INFORMATION AND BASIS OF PREPARATION

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

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

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

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

In preparing these consolidated financial statements, the Directors have given careful consideration to the impact of the current and anticipated future liquidity of the Group and the Company and the ability of the Group and the Company to generate a profit and attain positive cash flows from operations in the immediate and longer term. In making this assessment, the Directors are aware that there are certain material uncertainties relating to events and conditions which cast significant doubt upon the Company and the Group's ability to continue as a going concern and the Group's ability to realise its assets and discharge its liabilities in the normal course of business.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify the non-current assets and liabilities as current assets and liabilities respectively. The effects of these adjustments have not been reflected in these consolidated financial statements.

Financial restructuring plans

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On 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 debts owing by the Company to the Creditors against the Company as at 14 June 2019 which have been admitted by the scheme administrators of the Creditors; and (ii) issued the Convertible Bonds in the aggregate principal amount of HK$1,244,876,198.

Since several payment of administration fees for the restructuring are still outstanding, as a result the Company is required to maintain its status as under restructuring.

Grant of share subscription facility to the Company, proposed issued of new shares under specific mandate and proposed issue of warrants under specific mandate

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

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

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

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

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 the 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. The Warrants were issued by the Company in January 2021.

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.

As a result of the capital reorganisation of the Company, with effect from 16 September 2021, the Warrant Shares which will be allotted and issued upon the exercise of the subscription rights of the Warrants and the exercise price of the Warrants have been adjusted from 383,000,000 Warrant Shares to 38,300,000 Warrant Shares and from HK$0.23 to HK$2.3.

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

Amendments to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform-Phase 2

The application of the amendments to HKFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

		Effective for annual periods beginning on or after
HKFRS 17	Insurance Contracts and the Related Amendments	1 January 2023
Amendments to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	A date to be determined
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021	1 April 2021
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and Related Amendments to Hong Kong Interpretation 5 (2020)	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use	1 January 2022
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020	1 January 2022

The Directors anticipate that the application of all new and amendments to HKFRSs issued but not yet effective will have no material impact on the consolidated financial statements in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "**GEM Listing Rules**") and the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period.

4. REVENUE, OTHER INCOME AND IMPAIRMENT LOSS ON FINANCIAL ASSETS

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

	2021	2020
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Revenue from contracts with customers within the scope of HKFRS 15, disaggregated by types of good or service:		
Overtime:		
Artist management fee income	**6**	58
Hotel room income	**–**	11,820
Films production and licensing income	**–**	567
Events income	**–**	23
Training income	**1,329**	–
Services income	**216**	–
Digital commerce business income	**70,954**	–
Cross-border E-commerce business income	**425**	–
At a point of time:		
Ancillary services	**–**	851
Sales of travel related products	**76**	386
Sales of goods	**274**	135
Food and beverage income	**–**	11,483
Entrance fee income	**–**	5,023
	73,280	30,346
Rental income – Filming service	**1,571**	8,837
Rental income – Share of revenue	**2,228**	–
	3,799	8,837
	77,079	39,183
Timing of revenue recognition:		
At a point of time	**350**	17,027
Over time	**72,930**	13,319
	73,280	30,346

Other income

	2021	2020
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Bank interest income	**–**	1
Gain on disposal of property, plant and equipment	**–**	1,578
Government grant	**50**	6,525
Others	**3,566**	3,521
	3,616	11,625

	2021 *HK$'000* (Unaudited)	2020 *HK$'000* (Audited)
Impairment loss on financial assets		
Impairment loss recognised on:		
– trade receivables	**–**	77,318
– other receivables	**–**	64,616
	–	141,934

5. FINANCE COSTS

	2021 *HK$'000* (Unaudited)	2020 *HK$'000* (Audited)
Interest on lease liabilities	**1,856**	5,425
Interest on bonds	**–**	41,491
Interest on convertible bonds *Note*	**84,719**	40,494
Interest on promissory note	**2,007**	1,566
Interest on loan from directors	**43**	–
Interest on loan from shareholders	**23,293**	41,124
Interest on unsecured other borrowings	**2,249**	8,166
Interest on secured other borrowings	**11,723**	10,784
Interest on secured bank borrowings	**956**	1,231
	126,846	150,281

Note:

The interest on convertible bonds was calculated by effective interest method, which shall not represent the actual interest accrued of the convertible bonds.

6. (LOSS)/PROFIT BEFORE TAX

	2021 *HK$'000* (Unaudited)	2020 *HK$'000* (Audited)
(Loss)/profit before tax has been arrived at after charging:		
Auditor's remuneration	**1,180**	1,100
Depreciation of property, plant and equipment	**24,672**	59,613
Depreciation of right-of-use assets	**15,018**	15,918
Staff costs (including directors' remuneration)		
– Salaries, allowances and benefits in kind	**20,517**	49,299
– Contributions to retirement benefits scheme	**4,372**	4,073
	24,889	53,372

7. INCOME TAX EXPENSE

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

Under the Law of the People's Republic of China ("**PRC**") on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years. No provision for income tax in the PRC was made for the year ended 31 December 2021 as there was no assessable profits generated.

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

8. DIVIDEND

No dividend was paid or proposed for holders of ordinary shares of the Company during 2020 and 2021, nor has any dividend been proposed since the end of the reporting periods.

9. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company of HK$202,331,000 (2020: profit of approximately HK$44,662,000) and the weighted average of 5,884,494,432 (2020: approximately 616,926,000) ordinary shares in issue during the year.

(b) Diluted earnings/(loss) per share

The calculation of diluted loss per share is based on the loss attributable to owners of the Company of HK$202,331,000 (2020: profit of approximately HK$44,662,000) and the weighted average number of ordinary shares of 5,884,494,432 (2020: approximately 843,267,000) ordinary shares in issue during the year.

10. TRADE RECEIVABLES

	2021 ***HK$'000*** **(Unaudited)**	2020 *HK$'000* (Audited)
Trade receivables		
– travel agents	**139,199**	120,689
– production crews	**33,895**	56,026
– digital commerce business customers	**70,954**	–
– others	**13,110**	1,947
	257,157	178,662
Less: allowance for credit losses	**(173,106)**	(173,106)
	84,051	5,556

The following is the ageing analysis of trade receivables, net of allowances for bad and doubtful debts, presented based on the invoice date:

	2021	2020
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 to 60 days	**2,371**	2,350
61 to 90 days	**606**	515
91 to 180 days	**304**	25
Over 180 days	**80,770**	2,666
	84,051	5,566

11. TRADE PAYABLES

The Group was granted by its suppliers' credit periods from 30 to 60 days (2020: 30 to 60 days). The following is the ageing analysis of trade payables based on invoice date:

	2021	2020
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 to 30 days	**–**	963
31 to 60 days	**25**	392
61 to 90 days	**–**	728
91 to 180 days	**335**	838
Over 180 days	**114,258**	35,683
	114,618	38,604

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Xiqiao National Arts Studio Project

Located in Foshan City, Guangdong Province, the Group's Xiqiao National Arts Film Studio (the "**Studio**") and National Arts Resort Hotel (the "**Hotel**") (collectively the "**Xiqiao National Arts Film Studio Project**") has the view of Mount Xiqiao which is known as one of the national 5-star tourist attractions and has total developed land area of 444,000 square meters. There are unique film shooting areas throughout the Studio along with theme parks, hotel and performing arts complexes. The Studio incorporates sightseeing and recreational facilities which make it the most international vacation resort in Guangdong Province. Over the past years, the Studio successfully organised a number of events, including the "Fairy Aquatic Exhibition and Dinosaur Exhibition", "Boutique Lingnan Study Tour", "National Arts Mid-Autumn Festival Journey and Northern Lights Night", "June 1 Family Green Photography Tour", etc. In addition, the Group's 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 and televisions, culture and tourism and teaching activities, aiming to nurture the next generation of movie and television elites. 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 Group 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 optimizing traditional group tours, travel insurance, international flight and hotel booking, it 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 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, Dongguan, 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 into the Greater Bay Area, so as to embrace new market trends.

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.

The Group is also the first enterprise designated by the Foshan Government to help building Foshan as the largest operation 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.

The valuation method in respect of the Studio has changed from income approach to cost model due to the impact of the COVID-19 pandemic and to align the accounting policy with industry practice resulting a decrease in value. Nevertheless, the Group would not exclude the possibility of increase in value after the ease of the COVID-19 pandemic.

In order to reduce the impact of the COVID-19 pandemic to the business on the Group and minimize the operating cost of the Studio, part of the operations of the Studio has been outsourced to the management company engaged by the Group since January 2021.

Wedding Photography

The Group reached an agreement with a renowned domestic wedding photography chain group in the fourth quarter of 2013 to develop its brand-new 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.

Hotel

The 5-star Hotel located next to the Studio provides over 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, swimming pools and tea house, allowing travelers to enjoy themselves within the Hotel in all respects including dining, drinking and entertainment.

In addition, the Hotel also provides catering services and 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.

The Hotel has been designated as a quarantine hotel by the Foshan Government since September 2020 as its geographical location, ancillary facilities and ventilation system meet the standards required by the government.

The valuation method in respect of the Hotel has changed from replacement cost model to cost model due to the impact of COVID-19 pandemic and to align the accounting policy with industry practice resulting a decrease in value. Nevertheless, the Group would not exclude the possibility of increase in value after the ease of the COVID-19 pandemic.

In order to reduce the impact of the COVID-19 pandemic on the business of the Group and minimize the operating cost of the Hotel, part of the operations of the Hotel has been outsourced to the management company engaged by the Group since January 2021.

Film Production

The Group spared no effort in promoting film 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. 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.

Cinema

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

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

In order to reallocate the Group's resources for the development of new business and taking into account of the lower expected return of the cinema, the Group ceased to carry on the business of the cinema since early 2021.

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 modern romantic movie, "Romantic Marriage"（婚姻的童話）.

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.

Development of New Business

As the global economy was embracing new development opportunities against headwinds, the Group actively sought breakthroughs in new businesses in 2020 and made efforts in the digital technology area. The Group's digital technology layout will first give priority to new pattern of consumption and new economy, and focus on "digital commerce" and "cross-border e-commerce".

Digital commerce business

Guangzhou is the centre of the Guangdong-Hong Kong-Macao Greater Bay Area, with its commerce and trade industry ranking first in China in terms of development and scale. According to the policies of the Guangzhou Government, the Guangzhou Government will devote efforts in building a pilot zone for new commerce and trade innovation cluster in Guangzhou in the future, while Guangzhou International Commodity Exhibition & Trade City ("**Trade City**") will become the core area.

Guangzhou National Arts Huiying Film & Television Co., Ltd.（廣州國藝匯影影視傳播有限公司）("**Huiying**"), entered into a strategic cooperation agreement with partner, Trade City, and jointly established Guangdong Lingbian Digital Commercial Management Co., Ltd.（廣東領變數字商業管理有限公司）("**Lingbian Digital**"). Lingbian Digital was licensed to be the sole value-added service management company in Trade City, carrying trade fairs in Trade City with providing packaging and logistic services, and involving procurement, marketing and management activities.

The digital e-commerce service team includes talented staffs who has extensive knowledge of policies and regulations in cross-border e-commerce and have more than ten years of experience in brand development and digital media with practical operating experiences for famous international brands, such as Salvatore Ferragamo, Vitasoy and Chow Tai Fook Jewelry.

Lingbian Digital selects and acquires quality homeware products from various supplier at the Trade City, including kitchen tools, ceramics and household appliances and target sell to the merchandisers of middle and high-end supermarket in PRC. During the year ended 31 December 2021, Lingbian Digital organised numerous of trades fairs, such as 新年採購節, 展貿城家居換新購物節, 新春啟市活動, 超級福利季, 番禺開倉 and 8月折扣季, etc, and generated a revenue of approximately 70.95 million to the Group. Nevertheless, as the trial operation of Lingbian Digital consisted of a significant initial cost in online platform setup, promotion events, suppliers sourcing, price testing and logistic operation trial, the Group still recorded a minor loss after deducting those costs.

Following the cross-border export consumer service platform ("**ECS platform**") and Bay Area Cloud Warehouse（灣區雲倉）under the Group officially established presence in the Trade City, making another milestone of the Group's development in digital e-commerce matrix. The business of Lingbian Digital will be gradually shifted from offline (distribution and reselling) to online (online customer service platform). The ECS platform focuses on digital technology, and leverages on the Group's entertainment, film, and television ecosystem to empower the development of the platform. It aims to build a world-class marketing platform with regional synergy by gathering world-class quality products, coordinating, and promoting resources, and adopting the new model of combining online and offline advantage. It is believed that the ECS platform will contribute to the long-term profitability of the Group.

The ECS platform connects buyers and suppliers over the internet, which allows suppliers to offer their product catalogues and manage product information on the platform. Buyers can place their orders directly through the order function. The cross-border export consumer service platform has also integrated with a comprehensive selling supportive services through big data, such as personalised content, products suggestion, order tracking, online transactions, advertising and modified online promotion, live stream selling, as well as providing addition logistic and package services. The Group also intends to introduce its own designed products with the Group's intellectual property on the cross-border export consumer service platform for selling. It is expected that additional revenues will be generated from the digital e-commerce business, in particular from the subscription fees, membership fee, payment handling charge, advertisement, sale proceed of IP cooperative products, and trade fairs.

During the year ended 31 December 2021, the digital e-commerce business actively made development to demonstrate the development potential of the Group and the importance of digital e-commerce business development. It also marked the development advantages and direction of the new digital commerce business layout planning of National Arts Digital Technology Co., Ltd.（國藝數碼科技有限公司）("**NA Digital**") featuring "service-originated aggregation, aggregation-driven transactions, transaction-generated data, and data-based finance". The Group is optimistic about the future results and believes that the digital e-commerce business will result in a sustainable operating gain.

Cross-border E-commerce Business

The Group has always been determined to actively embrace the new economy and explore other development opportunities and is committed to seeking a diversified business layout. In particular, to set footprint in digital e-commerce business is an important part of the diversified business strategy of the Group. In 2020, the Group established NA Digital to vigorously expand its cross-border digital e-commerce and digital marketing business and achieve integrated marketing of contents, channels and traffic. Its principal business includes market development, customer relationship maintenance, project strategy, platform channel, execution, and coordination services, as well as the operation of online service platforms and production of content for influencers and artistes, targeting the markets in the Guangdong-Hong Kong-Macao Greater Bay Area.

NA Digital boasts a digital e-commerce service team with deep understanding of domestic and overseas markets, premium brands, and product networks, and maintains in-depth cooperation with major social and e-commerce platforms to provide full-chain services for the promotion of digital e-commerce of cross-border brands in Hong Kong, Macau and Mainland China. The team has more than ten years of experiences in brand building, digital media, and e-commerce operations, who served brands including international luxury brand Salvatore Ferragamo, Hong Kong well-known brand Vitasoy, and Chinese jewelry brand Chow Tai Fook Jewelry. The team had been mainly responsible for brand building services and marketing services to enter the PRC market from abroad, with a continuous service time of 5 to 13 years. In 2020, the PRC team was the first to participate in the operation of cross-border e-commerce, and successfully operated the new store as a leading store on Tmall International, mainly in selling health products.

Following the success of the flagship store set up on Tmall, the Group will introduce more similar brands and products to the current online stores and continue to develop other flagship stores on various ecommerce platforms, including JD.com and Pinduoduo.com. The digital e-commerce service team has recently negotiated with some new vendors for cooperation, and some have planned to place their products on the flagship store.

Aside from focusing on the current establishment of channels on numerous platforms, the Group also fixates on the development of different brands and targets customer groups globally in order to provide a comprehensive sales and distribution solutions. At the same time, the Group takes its advantages in the coalesce supply chains, such as global distribution strategies so as to cover all businesses online and offline worldwide.

Based on the rapid market development and staggering growth of consumer powers on cross-border ecommerce market, it is estimated that that the net profit margin of cross-border e-commerce business will increase significantly in 2022. The Group will increase its efforts in ecommerce business of both importation of high-quality foreign goods and exportation of domestic production in the future.

Impact of COVID-19 Pandemic to the Group

The operations of the Studio and the Hotel have been significantly affected due to the outbreak of COVID-19 pandemic. As the Group is in the travel industry which is one of the sectors mostly affected by the COVID-19 pandemic, the Group has been paying constant effort to control the risks associated with the COVID-19 pandemic.

Since 1 January 2021, part of the operations of the Studio and the Hotel has been outsourced to two service providers. By outsourcing part of the operations, the risks of the Group have been reduced by cost saving while the Group can still enjoy sharing of net revenue from the Studio and the Hotel.

With the impact of the COVID-19 pandemic, the credit period of the trade receivables are longer than usual, which affects the Group's liquidity. The new business segment was launched as diversification to reduce the risks that the Group is facing. The Group has launched a new business of digital commerce since early 2021, the new business has provided the Group with new income stream where the impact of COVID-19 pandemic is less significant.

In addition, with reference to the announcement of the Company dated 22 February 2022, the Group will participate in the virtual reality business in the future. By diversifying its business portfolio, the Group can further reduce its risks.

With the outsourcing arrangements and the business diversification mentioned above, the Group managed to reduce the impact of the COVID-19 pandemic in 2021 and is prepared for benefiting from the economic recovery expected after the COVID-19 pandemic is over.

Change of Business Model of the Studio and the Hotel

The deterioration of the financial performance of the Studio and the Hotel were mainly attributable to the COVID-19 pandemic, which the operation of the Studio and Hotel were forced to suspend temporarily. In order to reduce its further impact of the COVID-19 pandemic on the Group's business and minimize the operating costs of the Group, part of the operations of the Studio and the Hotel has been outsourced to two service providers since 1 January 2021. Two relating agreements were signed between the Group and the two service providers in relation to the outsourcing of part of the operations of the Studio and the Hotel on 1 January 2021.

According to the agreement signed between the Group and 奇妙之旅文化管理(佛山)有限公司 (the "**Service Provider of the Studio**"), the Service Provider of the Studio is solely responsible for the operation of ticketing selling and filming services of the Studio. The Group and the Service Provider of the Studio are entitled to share 20% and 80% of revenue (net of expenses other than rental expenses, interest expenses, salaries of management team and staff, repair and maintenance cost and other operating expenses) from ticketing selling and filming services of the Studio, respectively. The service period of the service agreement of the Studio is three years.

The Service Provider of the Studio is a third party and independent with the Company and its connected persons. The principal businesses of the Service Provider of the Studio are the provision of park management services, tourist attractions management, fitness and leisure activities as well as literary creation etc. The management team members of the Service Provider of the Studio have vast experience of over 15 years in managing theme parks, such as working experience in 杭州宋城旅遊景區, 廣州鳳凰文化旅遊發展有限公司 and 鳳鳴(廣州)旅遊開發有限公司, etc.

According to another agreement signed between the Group and 穗港產業運營管理(廣州)有限公司 (the "**Service Provider of the Hotel**"), the Service Provider of the Hotel is responsible for the sales and marketing services of the Hotel, including marketing research, customer sourcing, advertising, etc. The Group and the Service Provider of the Hotel are entitled to share 20% and 80% of net revenue derived from service rendered by the Service Provider of the Hotel respectively. The service period of the agreement of the Hotel is three years.

The Service Provider of the Hotel is a third party and independent with the Company and its connected persons. The principal businesses of the Service Provider of the Hotel are the provision of business consultant services, corporation management services, property management and property lease related services. The management team members of the Service Provider of the Hotel have vast experience of over 20 years in hospitality industry, including working experiences in Regal Hong Kong Hotel, Century Plaza Hotel Shenzhen, 清遠碧桂園假日半島酒店, 新世界集團惠州棕櫚島高爾夫 球度假村, etc.

In the new business model of the Studio and Hotel, there are no changes in the members of the management team of the Studio and the Hotel, as part of the services were outsourced to the service providers of the Studio and Hotel, a number of employees were made redundant. The Group retains the supervision of the outsourced services operation and any material changes of the services operated by the service providers of the Studio and the Hotel shall be subject to the consent and approval from the management of the Group.

Under the arrangement of 20-80 net revenue sharing between the Group and the service providers of the Studio and the Hotel, the Group is entitled to share 20% of net revenue derived from outsourced services of the Studio and the Hotel without bearing some of the operating expenses of the Studio and the Hotel. In addition, the service providers are entitled to keep the net revenue derived from the outsourced services of the Studio and the Hotel as the service fee. The services providers have to bear the expenses incurred in their services sector before sharing of net revenue (i.e., labour costs, activities cost, sales and marketing cost and other operating expenses incurred from their operation of service). The Group is not required to bear any loss from the outsourced services, but the Group is still responsible for the rental, interest expenses, salaries of management team and staff, repair and maintenance cost and other operating expenses incurred from its operation other than the outsourced services of the Studio and the Hotel after the share of 20% net revenue.

Under the outsourcing arrangement, the Group shared 20% of net revenue from outsourced services of Studio and the Hotel, notwithstanding the shared revenue was decreased as compared of its own operation in the year of 2020, in the absence of some operating costs which were borne bearded by the service providers of the Studio and the Hotel, the operating cost of the Group has reduced significantly in the year of 2021 as compared to that for the year of 2020. The staff costs of the Group for the period under review reduced to approximately HK$24.89 million from approximately HK$53.37 million in 2020, representing a significant decrease of approximately HK$28.48 million.

Due to the COVID-19 pandemic, the PRC government afflicted certain restriction and quarantine measures which affected the business of the Hotel and the Studio. As the outsourced services arrangement is temporary, and the Group reserves the rights to terminate the service agreements of the Studio and the Hotel, the Board considers that the economy will recover after the COVID-19 pandemic eases and the profit of the Studio and the Hotel will resume to the level before the COVID-19 pandemic, taking into account the government's restriction and quarantine measures, the development of the COVID-19 pandemic in the PRC, economic recovery, government's support and other factors, such as business structure and liquidity of the Group, the Group may then consider resuming its own operation of the Hotel and the Studio by giving at least 6-month notice to the service providers of the Studio and the Hotel.

FINANCIAL REVIEW

Results

During the year under review, the Group recorded revenue of approximately HK$77.08 million, representing an increase of approximately HK$37.90 million as compared to that in 2020. The increase in revenue was mainly attributable to the new business, namely, digital commerce, undertaken by the Group, which generated income of approximately HK$70.95 million during the year under review.

Staff costs for the year under review decreased to approximately HK$24.89 million from approximately HK$53.37 million in 2020, representing a decrease of approximately HK$28.48 million. Such decrease was mainly due to the outsourcing arrangement of the operations of the Studio and the Hotel, which highly reduced some of the labor cost from part of the operations of the Studio and the Hotel.

Other operating expenses for the year under review increased to approximately HK$115.18 million from approximately HK$55.66 million in 2020. Such increase was mainly due to the digital commerce business undertaken by the Group during the year under review.

Finance costs for the year under review decreased to approximately HK$126.85 million from approximately HK$150.28 million for the year ended 31 December 2020, mainly due to the decrease in interest on loan from shareholders, notwithstanding the increase in interest on convertible bonds during the year under review. The interest on convertible bonds of approximately HK$84.72 million was calculated by effective interest method, however, the amount shall not represent the actual interest accrued on the convertible bonds. The actual interest accrued on the convertible bonds was approximately HK$12.45 million, which was calculated by 1% of annual coupon rate and the aggregate principal amount of approximately HK$1,244.88 million issued to the Creditors.

For the year ended 31 December 2021, the Group recorded a net loss of approximately HK$202.47 million as compared to a net profit of approximately HK$43.49 million for the year ended 31 December 2020. Such turnaround was mainly due to the increase of other operating expenses and the absence of the impact of gain on financial restructuring which arose from restructuring transaction of the Group taking place on 29 June 2020, in the year ended 31 December 2021.

Asset Impairments in 2020

Impairment of the Studio

In 2019, the Group considered that the situation of the COVID-19 pandemic would be relatively short lived and would not cause major effect for the next 5 years i.e., 2020 – 2024. The performance of the Studio would recover to the level of pre-COVID-19 pandemic very soon. However, the COVID-19 pandemic continued to intensify during the year 2020. After that, the management of the Group realized that the impact of the COVID-19 pandemic on the Studio in the next 5 years (i.e., 2021 – 2025). Therefore, the Group reassessed the impact of the COVID-19 in preparation of the forecast. The overall forecast revenue was decreased by approximately 51% in comparison to the forecast in 2019.

During the year ended 31 December 2020, the revenue generated from film studio operation decreased from HK$135,978,000 to HK$9,084,000 (93.3%). Since the revenue generated from film studio operation decreased, there is an indication that the Group’s film studio operation may be impaired. The management prepared a discounted cash flow forecast to estimate the recoverable amount based on value in use of the Group’s film studio operation.

The impairment assessment was reference to a valuation conducted by an independent qualified valuer, Ravia Global Appraisal Advisory Limited, whose is a corporate member of The Hong Kong Institute of Surveyors (General Practice Division). The Group has adopted the income approach and used discounted cash flow method to assess the recoverable amount of the cash generating units of film studio operation.

The management based on the first half year actual result of 2021 projected full year ending 31 December 2021 in preparing the forecast period from 2021 to 2025 and took the average revenue for the past three years ended 31 December 2018, 2019, and 2020 as forecasted revenue for the year ending 31 December 2022.

In relation to the forecast period 2023 to 2025, a growth rate of 3% was adopted in revenue generated from sales of goods in the Studio and relevant ancillary services. On the entrance fee income, the management referenced to the past record of entrance fee income. The average number of tourist attendance of studio for the years 2017, 2018, and 2019 was approximately 1,104,000 person per year. Due to the COVID-19 pandemic, the average number of tourist attendance of 2018, 2019 and 2020 was decreased to approximately 805,000 person per year while the average ticket price was RMB47.

Nevertheless, the forecasted number of tourist attendance for the year 2021 is 300,000, which is based on the actual attendance of the first half 2021. The management expected that the market will keep improving from the ease-off of the COVID-19 pandemic and the tourist attendance will be further increased. Therefore, the management expect the number of tourist attendance will be recovered to the average level of year 2018, 2019 and 2020 at 800,000 in 2022. A further increase to approximately 1,000,000 attendances in 2023, 1,200,000 attendances in 2024 and will reach 1,300,000 in 2025. The management assumed the ticket price for the year ending 31 December 2021 is RMB40 and a 5% increase from RMB40 to RMB42 was adopted in 2022 and 2023. a 2% increase from RMB42 to RMB43 was adopted in 2024 and a 2% increase from RMB43 to RMB44 was adopted in 2025. A long-term growth rate of 3% is used.

The recoverable amount of the Studio has been determined based on a value in use calculation which is RMB256 million stated in the valuation report 2020. Such calculation was based on the cash flow projections approved by the management covering the next 5 years with a pre-tax discount rate at 14% as of 31 December 2020 (2019: 14%).

For the discounted cash flow, discount rate of 14% used is the weighted average cost of capital ("**WACC**"), which is commonly used in discount cash flow calculation, and those parameters adopted were searched from the market.

The other assumption adopted as follow:

– It is assumed that the business will continue as a going concern and has sufficient liquidity and capability to achieve the business operation;

– It is assumed that the business has obtained all necessary permits, business certificates, licenses and legal approvals to operate the business and all relevant permits, business certificates, licenses and legal approvals to operate the business in the localities in which the business enterprise operates or intends to operate would be officially obtained and renewable upon expiry with de minimis expenses;

– It is assumed that upon expiry of the current permits, business certificates, licenses and/or legal approvals, the business is able to renew all such documents to operate the business with de minimis expenses;

– It is assumed that the projection outlined in the financial projection provided are reasonable, reflecting market conditions and economic fundamentals, and will be materialised;

– It is assumed that there will be sufficient supply of technical staff in the industry in which the business operates or intends to operate, and the business will retain competent management, key personnel and technical staff to support their ongoing operations and developments;

– It is assumed that there will be no major changes in the current taxation laws in the localities in which the business enterprise operates or intends to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with;

– There will be no major changes in political, legal, economic or market conditions in the localities in which the business enterprise operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the business; and

– There will be no material changes in the relevant interest rates and exchange rates that would impact the business.

No significant changes in the value of inputs and assumptions from those previously adopted in the year ended 31 December 2020.

Impairment of financial assets

The Group assesses and measures loss allowance for expected credit loss ("**ECL**") on its financial assets, including trade receivables, and other receivables, which are subject to impairment assessment under HKFRS 9. The amount of ECL is updated at each reporting date. The valuations are performed in accordance with HKFRS 9 to estimate the total ECL of the receivables. In valuing the ECL under HKFRS 9, probability-weighted loss default ("**PLD**") model is adopted. The PLD model involves the four key parameters, (i) Probability of default ("**PD**"); (ii) Loss given default ("**LGD**"); (iii) Exposure at default ("**EAD**"); and (iv) Discount factor ("**DF**"). The ECL is derived by summing the ECL of all the expected default events within a specific period. The ECL for each possible event is calculated as the product of the four parameters above.

The Group provided impairment losses of approximately HK$91,068,000 and reversal of impairment of approximately HK$13,750,000 on trade receivables for the year ended 31 December 2020. The impairment losses of approximately HK$91,068,000 were recognized on receivables that were individually assessed and aged over one year and past due for more than one year. The ECL rate applied for trade receivables aged "**Over 360 days**" was 100%.

The Group provided impairment losses of approximately HK$64,616,000 on other receivables for the year ended 31 December 2020. Included in the impairment losses, an amount of which of approximately HK$36,847,000 were recognized on receivables which were individually assessed and aged over one year and past due for more than one year. An impairment loss of approximately HK$27,769,000 was recognized on two receivables with no fixed repayment term based on valuation report with the ECL rates of 10.53% and 20.26%.

The other assumption adopted as follow:

– There will be no material change in the political, legal, fiscal, technological, market and economic conditions that will materially affect the operation of the Group and the debtors of the receivables;

– The interest rates and exchange rates will not differ materially from those of present or expected;

– The relevant information regarding the receivables provided by the Group is true and accurate; and

– The long outstanding balances of receivables are assumed to be in default by the Group.

No significant changes in the value of inputs and assumptions from those previously adopted, and no subsequent changes in the valuation method is expected.

Liquidity and Financial Resources

	2021	2020
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Current assets	**193,198**	102,766
Current liabilities	**440,985**	275,882
Current ratio	**43.8%**	37.2%

Current ratio as at 31 December 2021 was 43.8% (2020: 37.2%). As at 31 December 2021, the Group's total positive cash and cash equivalents amounted to approximately HK$10.66 million (2020: positive cash and cash equivalents approximately HK$12.60 million).

Dividend

The Directors do not recommend payment of a final dividend for the year ended 31 December 2021 (2020: Nil).

Capital Structure and Gearing Ratio

The shares of the Company were listed on GEM of the Stock Exchange on 17 October 2002. The capital of the Company comprises only ordinary shares. As at 31 December 2021, 832,386,836 ordinary shares were issued and fully paid.

	2021		2020	
	Amount	**Relative**	Amount	Relative
	HK$'000	*%*	*HK$'000*	*%*
Loans from shareholders	**87,354**	**9.7%**	90,023	10.3%
Loans from directors	**1,450**	**0.2%**	–	0.0%
Borrowings	**207,559**	**23.0%**	154,560	17.6%
Promissory note	**52,771**	**5.9%**	48,463	5.5%
Convertible bonds	**972,862**	**107.9%**	866,016	99%
Lease liabilities	**37,271**	**4.1%**	35,416	4.0%
Total borrowings	**1,359,267**	**150.8%**	1,194,478	136.2%
Equity	**(457,279)**	**(50.8)%**	(317,738)	(36.2)%
Total capital employed	**901,988**	**100%**	876,740	100%

The Group's gearing ratio (i.e. the total borrowings to the total capital employed) was approximately 150.8% as at 31 December 2021 (2020: 136.2%).

Foreign Exchange Exposure

The Group's reporting currency is expressed in HK$. For the year ended 31 December 2021, most of the transactions, assets and liabilities of the Group were denominated in HK$ and RMB. During the year under review, since the Group had both HK$ and RMB receipts and payments, the net RMB exposure was not significant. The Board considers that the Group's exposure to foreign exchange risk was not significant; therefore, no hedging transaction was made during the year.

Capital Commitments

As at 31 December 2021, the Group had the following capital commitments:

	2021	2020
	HK\$'000	*HK\$'000*
	(Unaudited)	(Audited)
Contracted but not provided for:		
Construction of properties	**98,591**	85,239
Authorised but not contracted for:		
Construction of properties *(Note)*	**367,287**	356,506

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

Future Plans for Substantial Investments or Capital Assets

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

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

FUTURE PROSPECT

While the Group is paying effort to minimize business risks during the COVID-19 pandemic, the Group is ready to enjoy the benefit from the economic recovery expected after the COVID-19 pandemic is over.

Although the Group has outsourced part of the operations of the Studio and the Hotel, the Group reserves the right to terminate such outsourcing arrangement. When the COVID-19 pandemic outbreak subdues, the Group expects that there will be a revival of the travel industry. Given the location of the Studio and the Hotel, the Group expects that it will benefit from the opportunities brought by the construction of the Belt and Road Initiative, the development of the Guangdong-Hong Kong-Macao Greater Bay Area, as well as the opening of the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and the Hong Kong-Zhuhai-Macao Bridge.

Following the emerging trends of cross-border e-commerce and staggering growth of consumer power, the Group will emphasize on the development of its e-commerce business and continue to develop multi-channel selling by setting up flagship stores on various well-known PRC ecommerce platforms, including JD.com and Pinduoduo.com, and also increase its efforts in e-commerce business of both importing high-quality foreign goods and exporting domestic products in the future. Meanwhile, the Group is planning to expand its e-commerce business globally by cooperating with global brands and partner companies and develop its superior strategies of global and private coalesce supply chains, in order to achieve the goal of "Global is Local, Local is Global".

In view of the new digital commerce and the virtual reality business, the Group will continue to establish strategic partnerships with different brands and platforms. The Group's Bay Area Cloud Warehouse has integrated resources of multiple parties in conjunction with the matrix strategy of Trade City with an aim to provide one-stop cross-border e-commerce services to brand owners, including product selection, warehousing, logistics, customs clearance and online store operation. As a pioneer in the digital e-commerce industry in the Guangdong-Hong Kong-Macao Greater Bay Area, the Group's digital technology division is expected to play a big role in boosting its business, and will become a new profit growth driver promoting the steady improvement of its performance.

In the future, the Group will continue to exploit its geographical location in the Guangdong-Hong Kong-Macao Greater Bay Area, one of the four major bay areas in the world, and upgrade its business operations so as to establish a foothold in the Greater Bay Area and go global.

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

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 proposed 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 new shares of the Company (the "**New Shares**") at the issue price of HK$0.38 per New Share and 1% annual coupon rate convertible bonds due 2024 (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.

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 Shares and the Convertible Bonds and the increase the authorised share capital of the Company from HK$600,000,000 divided into 6,000,000,000 shares of the Company of HK$0.1 each (the "**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 the shares to be issued upon the exercise of the Convertible Bonds (the "**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, 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 14 June 2019 which have been admitted by the scheme administrators 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 14 June 2019 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 Kwok Lam ("**Mr. Sin**"), Ms. Law Po Yee ("**Ms Law**"), Mr. Chow Kai Weng ("**Mr. Chow**"), Mr. Tse Young Lai ("**Mr. Tse**") and Mr. Yiu Kin Kong and any Shareholder with a material interest in the Scheme) at the SGM held on 10 October 2019.

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

Adjustments in relation to the Convertible Bonds

As a result of the Capital Reorganisation as set out in the paragraph headed "Capital Reorganisation" below, with effect from 16 September 2021, the number of Conversion Shares that will be allotted and issued upon the exercise of the conversion rights attached to the 2020 Convertible Bonds and the conversion price have been adjusted from 2,263,411,269 Conversion Shares to 226,341,126 Conversion Shares and from HK$0.55 to HK$5.5.

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.

The initial Warrant Exercise Price of HK$0.23 represented:

(i) a premium of approximately 24.32% to the closing price per share of the Company of HK$0.185 as quoted on the Stock Exchange on 13 March 2020, being the date of the SSF Agreement;

(ii) a premium of approximately 23.79% to the average of the closing prices of the shares of the Company as quoted on the Stock Exchange in the five (5) trading days immediately preceding the date of the SSF Agreement, being HK$0.1858 per share; and

(iii) a premium of approximately 23.32% to the average of the closing prices of the shares of the Company as quoted on the Stock Exchange in the ten (10) trading days immediately preceding the date of the SSF Agreement, being HK$0.1865 per share.

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

Application has 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 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 the 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.

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 the specific mandates to allot and issue 383,000,000 Warrant Shares at the exercise price of HK$0.23 each (subject to adjustment) was granted to the Directors at the SGM held on 5 October 2020.

The Warrants were issued by the Company in January 2021.

Adjustments in relation to the Warrants

As a result of the Capital Reorganisation as set out in the paragraph headed "Capital Reorganisation" below, with effect from 16 September 2021, the Warrant Shares which will be allotted and issued upon the exercise of the subscription rights of the Warrants and the Warrant Exercise Price have been adjusted from 383,000,000 Warrant Shares to 38,300,000 Warrant Shares and from HK$0.23 to HK$2.3.

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 net issue price of the Warrant Share will be HK$2.3.

As disclosed in the announcement of the Company dated 11 May 2021, as under the Share Subscription Facilities, the number of Shares that could be subscribed is based on the trade volume of the Shares, and the subscription price is based on the 10 per cent discount to the closing price of the Shares. As the trade volume of the Shares is not sufficient to meet the funding requirement and the current market price of the Shares is below par value (the Company cannot issue the Shares below par under the Bermuda law). Therefore, the Company is unable to utilize the facilities under the Share Subscription Facilities at the moment, and the Company proceeded to issue the 2021 Convertible Bonds instead of using the Share Subscription Facilities.

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 and 11 May 2021, the Company's circular dated 11 September 2020 and the Company's poll results announcement dated 5 October 2020.

CHANGE OF COMPANY NAME

The Board proposed 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 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 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 Change of Company Name is in the interests of the Company and the Shareholders as a whole. The Change of Company Name was 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.

The Certificate of Incorporation on Change of Name and the Certificate of Secondary Name were issued by the Registrar of Companies in Bermuda on 27 August 2021, and the Certificate of Registration of Change of Corporate Name of non-Hong Kong Company was issued by the Company Registrar in Hong Kong on 21 September 2021.

The English stock short name of the Company for trading in the shares on the Stock Exchange will remain unchanged and the Chinese stock short name of the Company has been changed from "國藝娛樂" to "國藝集團控股" with effect from 9:00 a.m. on 27 October 2021. The stock code of the Company remains unchanged.

Further details of the proposed Change of Company Name are set out in the Company's announcement dated 23 March 2020 and 24 October 2021, 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 discussed with the Convoy Board further details of the Possible Offer, including how and when the Possible Offer could 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 expected 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 was then not 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 disagreed with the Decision and had 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**").

The hearing for Review by the GEM Listing Committee of the Stock Exchange (the "**Review Hearing**") took place on 4 November 2020. On 23 November 2020 the GEM Listing Committee informed National Arts that it upheld the Decision on 23 November 2020 citing the same reason for the Decision by the Listing Division (the "**GEM Listing Committee Decision**").

The Company disagreed with the GEM Listing Committee Decision, and had submitted a formal request to the secretary of the GEM Listing Review Committee of the Stock Exchange on 2 December 2020 for a review of the GEM Listing Committee Decision by the GEM Listing Review Committee of the Stock Exchange pursuant to Rule 4.06(2) of the GEM Listing Rules (the "**GEM Listing Review Committee Review**").

Nonetheless, given the GEM Listing Committee Decision and foreseeable obstacles, on 24 November 2020, the Company approached the Convoy Board about a pre-conditional voluntary partial share exchange offer (the "**Proposed Partial Share Exchange Offer**"). Completion of the Proposed Partial Share Exchange Offer is subject to fulfilment or waiver of certain conditions.

Following the approach, the Board discussed with the Convoy Board further details of the Proposed Partial Share Exchange Offer, including how and when it 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 Proposed Partial Share Exchange Offer.

As certain applicable percentage ratios (as defined under the GEM Listing Rules) for the Company in respect of the transactions in connection with the Proposed Partial Share Exchange Offer exceed 25% but all of the percentage ratios are less than 100%, the Proposed Partial Share Exchange Offer, if it were to proceed, would constitute a major transaction for the Company under the

GEM Listing Rules, and the Proposed Partial Share Exchange Offer together with the allotment and issue of new Shares by way of specific mandate are therefore conditional upon, among other things, the approval of the shareholders of the Company at a special general meeting.

As disclosed in the joint announcement of the Company and Convoy dated 15 March 2021, the Board has come to a decision to discontinue pursuing the Proposed Partial Share Exchange Offer given it has taken longer than the Board has originally anticipated.

In place of the withdrawal of the Proposed Partial Share Exchange Offer, the Company and Convoy are currently exploring other avenues of cooperation but no concrete plan has been formed as at the date of this announcement.

Further announcements will be made by Convoy and the Company pursuant to the requirements of the Listing Rules and the Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**") as and when required. Convoy and the Company consider that the withdrawal of the Proposed Partial Share Exchange Offer will not have any material adverse effect on the existing financial position or business operations of Convoy or the Company.

For the purposes of the Takeovers Code, the offer period of the Company commenced on 29 July 2020 and ended on 15 March 2021.

On 11 August 2021, the Board has decided to withdraw the request for the GEM Listing Review Committee Review.

MATERIAL ACQUISITION

Discloseable Transaction – Acquisition of the Target Company

On 29 January 2021, the Company entered into a sale and purchase agreement (the "**Agreement**") with Advanced Oasis International Holding Limited (the "**Seller**") and Chu Hin Ming, Alfonso (the "**Guarantor**"), pursuant to which the Company has conditionally agreed to acquire from the Seller the entire issued share capital of Majestic Bravo Limited (the "**Target Company**", together with its subsidiaries, the "**Target Group**") at the consideration of HK$90,000,000 (the "**Consideration**") (the "**Acquisition**"), which shall be settled by the allotment and issue of 900,000,000 shares of the Company (the "**New Consideration Shares**") by the Company to the Seller upon completion of the Acquisition ("**Completion**").

Upon completion of the proposed restructuring to be taken by the Target Company prior to Completion (the "**Restructuring**"), the Target Company will through its subsidiaries hold 100% ownership of the 26 units service apartment of Golden Straits Morib, situated at Kawasan Kanchong Laut Mukim Morib Banting State of Selangor, Malaysia (the "**Target Apartments**").

Each of the Seller and the Guarantor agreed and undertook with the Company that unless with the prior written consent of the Company, the Seller shall not, whether directly or indirectly, (1) at any time during the period of 6 months following the date of Completion (the "**Completion Date**"), dispose of, or agree or contract to dispose of, either directly or indirectly, conditionally or unconditionally, any of the 900,000,000 New Consideration Shares issued and allotted by the Company to the Seller at Completion pursuant to the Agreement or any interest therein or any voting right or any other right attaching thereto; and (2) at any time during the period of 12 months following the Completion Date, dispose of, or agree or contract to dispose of, either directly or indirectly, conditionally or unconditionally, any of the 450,000,000 New Consideration Shares issued and allotted by the Company to the Seller at Completion pursuant to the Agreement or any interest therein or any voting right or any other right attaching thereto.

Conditions precedent

Completion is subject to the fulfilment or (if applicable) waiver of the following conditions precedent:

a. the Company being satisfied with the results of the due diligence exercise (whether on legal, accounting, financial, operational, properties or other aspects that the Company may consider necessary) on the Target Group and its assets, liabilities, activities, operations, prospects and other status which the Company, its agents or professional advisers think reasonably necessary and appropriate to conduct;

b. the receipt by the Company of a legal opinion(s) on the Target Group and the Target Apartments (in the form and substance to the satisfaction of the Company) issued by qualified legal adviser(s) acceptable to the Company and the Company's lawyer;

c. the receipt by the Company of a valuation report issued by an independent professional valuer acceptable to the Company showing the value of the Target Apartments as at a date not more than 3 months before the Completion Date being not less than HK$90,000,000;

d. the receipt by the Company of the management account of the Target Group up to the date which is not more than 1 week before the Completion Date;

e. the receipt of all such waivers, consents or approvals by the Company in relation to the completion of the transactions contemplated under the Agreement, including but not limited to the approvals from the Stock Exchange and/or the Securities and Futures Commission;

f. the Listing Committee of the Stock Exchange granting listing of and permission to deal in the New Consideration Shares;

g. completion of the Restructuring; and

h. the representations, warranties and undertakings by the Seller and the Guarantor in the Agreement remaining true and accurate and not misleading at Completion as if repeated at Completion and at all times between the date of the Agreement and the Completion Date.

Conditions (b), (c), (e), (f) and (g) are not capable of being waived by any parties. The Company may waive conditions (a), (d) and (h).

If all the conditions above shall not be fulfilled or (if applicable) waived at or before 5 p.m. on 30 April 2021 (or such later day as the Seller and the Company may agree in writing), then the Agreement shall cease and determine and none of the parties shall have any obligations and liabilities under the Agreement save for any antecedent breaches.

Guarantee by the Seller and the Guarantor

Pursuant to the Agreement, the Seller will lease the Target Apartments from the Company for its operations, and the Seller, together with the Guarantor, irrevocably warrant to and guarantee with the Company that the Company shall generate and receive from the Target Apartments the following minimum return for the five years commencing on 1 January 2023, failing which, each of the Guarantor and the Seller shall forthwith indemnify the Company such shortfall on a dollar-to-dollar basis in full:

1st year (i.e. 1 January 2023 to 31 December 2023) – 3.5% of the Consideration;
2nd year (i.e. 1 January 2024 to 31 December 2024) – 4.25% of the Consideration;
3rd year (i.e. 1 January 2025 to 31 December 2025) – 4.75% of the Consideration;
4th year (i.e. 1 January 2026 to 31 December 2026) – 5.25% of the Consideration; and
5th year (i.e. 1 January 2027 to 31 December 2027) – 5.75% of the Consideration.

Reference is made to the announcement of the Company dated 29 January 2021 in relation to the Agreement entered into for the acquisition of Majestic Bravo Limited. As at 24 March 2021, all conditions precedent of both parties have been fulfilled and 900,000,000 New Consideration Shares have been allotted and issued to the Seller.

Reason for entering into the Acquisition

The Company has sophisticated experience in hotel management, especially in the PRC. The Group owns the studio and hotel, which are located in Foshan City, Guangdong Province and 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.

In order to further the horizontal development of the Group's hotel operation in oversea market, the Company has entered into the Agreement for acquiring the Target Apartments. In addition, the Company intends to hold the Target Apartments as investment properties and lease the Target Apartments to the Seller for its operations. The Board believes that the Acquisition can diversify the hotel operation of the Group in oversea market in the coming years.

In view of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Company and its shareholders as a whole.

Implications under the GEM Listing Rules

Given that the applicable percentage ratios (as defined under the GEM Listing Rules) in respect of the Acquisition are more than 5% but less than 25%, the Acquisition constitute a discloseable transaction for the Company under Chapter 19 of the GEM Listing Rules and are subject to the notification and announcement requirements under Chapter 19 of the GEM Listing Rules.

Completion

Completion took place on 24 March 2021. The Consideration has been settled by the allotment and issue of 900,000,000 New Consideration Shares to the Seller.

Further details of the Acquisition are set out in the Company's announcements dated 29 January 2021 and 24 March 2021 and the next day disclosure return of the Company dated 24 March 2021.

Save as disclosed above, there is no material acquisition or disposal by the Group during the year ended 31 December 2021.

ISSUE OF CONVERTIBLE BONDS

Issue of 2021 Convertible Bonds under General Mandate

On 17 April 2021, the Company entered into the Subscription Agreement with the Investor, pursuant to which the Investor has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue, the 2021 Convertible Bonds on the terms and subject to conditions set out therein (the "**2021 CB Subscription**").

Upon full conversion of the 2021 Convertible Bonds at the initial conversion price of HK$0.10 per conversion share (the "**2021 Conversion Share**") (subject to adjustments), a total of 250,000,000 2021 Conversion Shares will be issued. The 2021 Conversion Shares will be allotted and issued pursuant to the General Mandate.

The initial conversion price of the 2021 Convertible Bonds of HK$0.1 represented:

(i) a premium of approximately 66.67% to the closing price of the shares of the Company of HK$0.06 per share as quoted on the Stock Exchange on 16 April 2021 (being the last trading date immediately before the date of the Subscription Agreement); and

(ii) a premium of approximately 68.35% to the average closing price of the shares of the Company of approximately HK$0.0594 per share as quoted on the Stock Exchange for the five consecutive trading days immediately preceding 16 April 2021.

As a result of the Capital Reorganisation as set out in the paragraph headed "Capital Reorganisation" below, with effect from 16 September 2021, the number of 2021 Conversion Shares that will be allotted and issued upon the exercise of the conversion rights attached to the 2021 Convertible Bonds and the conversion price have been adjusted from 250,000,000 2021 Conversion Shares to 25,000,000 2021 Conversion Shares (representing approximately 3% of the existing issued capital of the Company as at the date of this announcement and approximately 2.92% of the issued share capital of the Company as enlarged the issue of the 2021 Conversion Shares) and from HK$0.10 to HK$1.0.

Conditions Precedent

Completion was conditional upon:

(a) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the 2021 Conversion Shares;

(b) all necessary consents, approvals, authorisations, permissions, waivers, orders, exemptions or notifications of, among others, creditors and shareholders of the Company, other relevant third parties and/or governmental or regulatory authorities or bodies as may be necessary to be obtained on the part of the Company in respect of the Subscription Agreement and the transactions contemplated thereunder having been obtained;

(c) the board of directors of the Company having approved the Subscription Agreement and the transactions contemplated herein (if so required by the GEM Listing Rules) at a duly convened and held directors meeting in accordance with the GEM Listing Rules;

(d) the Investor and the shareholders of the Company having entered into the share lending agreement remaining in full force and effect without any failure (or threatened failure) by the shareholders of the Company who have entered into the such agreement to duly perform its obligations thereto;

(e) no change, event, or circumstance having occurred which constitutes a material adverse change prior to completion;

(f) the warranties remaining true and accurate and not misleading in all respects; and

(g) the Company having delivered to the Investor a certificate signed by one of its directors certifying that the conditions have been fulfilled.

The 2021 CB Subscription and the issue of 2021 Conversion Shares under the General Mandate are not subject to the approval of the shareholders of the Company. No application will be made for the listing of the 2021 Convertible Bonds on the Stock Exchange or any other stock exchange. An application has been made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the 2021 Conversion Shares. The 2021 Convertible Bonds were issued by the Company in May 2021.

The gross proceeds and net proceeds from the issue of the 2021 Convertible Bonds is HK$25,000,000 and approximately HK$25,000,000 respectively. The net conversion price (based on initial conversion price of HK$0.1) is approximately HK$0.1. The Group intended to use all the net proceeds as follows:

(i) approximately HK$5 million for repayment of other accrued expenses of the Group;

(ii) approximately HK$5 million for payment of rental & office expenses of the Group;

(iii) approximately HK$5 million for payment of salary of the staff of the Group;

(iv) approximately HK$1 million for payment of general office expenses of the Group;

(v) approximately HK$5 million for settlement of the PRC tax; and

(vi) the balance for settlement of the professional fees.

As at the date of this announcement, the Group has utilized all the net proceeds from the issue of the 2021 Convertible Bonds in the manner set out above.

As disclosed in the announcement of the Company dated 11 May 2021, as under the Share Subscription Facilities, the number of Shares that could be subscribed is based on the trade volume of the Shares, and the subscription price is based on the 10 per cent discount to the closing price of the Shares. As the trade volume of the Shares is not sufficient to meet the funding requirement and the current market price of the Shares is below par value (the Company cannot issue the Shares below par under the Bermuda law). Therefore, the Company was unable to utilize the facilities under the Share Subscription Facilities at the relevant time, and the Company proceeded to issue the 2021 Convertible Bonds.

CAPITAL REORGANISATION

As disclosed in the Company's announcement dated 19 July 2021, the Board proposed to implement the capital reorganisation (the "**Capital Reorganisation**") which comprised the following:

(1) Share Consolidation

The share consolidation (the "**Share Consolidation**") was on the basis that every ten (10) issued and unissued existing shares of par value HK$0.10 each in the share capital of the Company (the "**Existing Shares**") shall be consolidated into one (1) consolidated share of par value of HK$1.00 each (the "**Consolidated Shares**"). The total number of Consolidated Shares in the issued share capital of the Company immediately following the Share Consolidation is 832,386,836 Consolidated Shares after cancelling any fraction in the issued share capital of the Company which may arise from the Share Consolidation.

(2) Capital Reduction

Immediately upon the Share Consolidation becoming effective, the share capital of the Company has been reduced (the "**Capital Reduction**") whereby:

(i) any fractional Consolidated Share in the issued share capital of the Company arising from the Share Consolidation shall be cancelled;

(ii) the issued share capital of the Company of HK$832,386,836 divided into 832,386,836 Consolidated Shares shall be reduced to HK$8,323,868.36 divided into 832,386,836 new shares of the Company by cancelling the paid-up capital of the Company to the extent of HK$0.99 on each of the issued Consolidated Shares such that the par value of each issued Consolidated Share will be reduced from HK$1.00 to HK$0.01;

(iii) the credit arising from the Capital Reduction in the amount of approximately HK$824,062,967.64 shall be credited to the contributed surplus account of the Company up to the Effective Date within the meaning of the Companies Act 1981 of Bermuda (the "**Companies Act**") for use by the Directors in any manner permitted by the Companies Act and the bye-laws of the Company; and

(iv) the authorised share capital of the Company of HK$2,000,000,000 divided into 2,000,000,000 Consolidated Shares shall be reduced to HK$20,000,000 divided into 2,000,000,000 new shares of the Company by reducing the par value of all unissued Consolidated Shares from HK$1.00 each to HK0.01 each.

The SGM was convened and held on 14 September 2021 for the Shareholders to consider and, if thought fit, approve the necessary resolution(s) in respect of the Capital Reorganisation. The resolutions approving the Capital Reorganisation were duly passed by the Shareholders at the SGM, and the Capital Reorganisation has become effective with effect from 16 September 2021.

Further details of the Capital Reorganisation are set out in the announcements of the Company dated 11 May 2021 and 19 July 2021, the circular of the Company dated 20 August 2021 and the poll results announcement of the Company dated 14 September 2021.

EVENTS AFTER REPORTING PERIOD

Letter of cooperation in relation to the establishment of a joint venture company

On 22 February 2022, the Company entered into a letter of cooperation (the "**LOC**") with First Bullion Holdings Inc ("**First Bullion**") and National Treasure Management Limited ("**National Treasure**") whereby the parties agreed to establish a new joint venture company (the "**JV Company**") engaging in the development of virtual reality business.

Under the LOC, the Company, First Bullion and National Treasure will respectively own 40%, 30% and 30% equity interest in the JV Company. The board of directors of the JV Company will consist of three directors and each shareholder has the right to nominate one director.

According to the LOC, the JV Company will be established for the development of a virtual reality environment based on the scenery of the Studio with both online and offline operations. For online operation, the JV Company will arrange music contexts, talent quests, production of movie clips, music concerts, for players, in principle, along the line of a dream making studio. Also, metaverse, which is a network of 3D virtual worlds focused on social connection (the "**Metaverse**") will provide shopping and market place for the players' products. For offline operation, the JV Company will organize singing, acting, movie making and martial arts training to enable players to do what one intends to actualise in the Metaverse. Also, the JV Company will facilitate an e-commerce platform to sell the players' commodities on the virtual mall including on/off shore payment gateways and goods delivery. Blockchain technology and non-fungible token ("**NFT**") will be applied in the above business model and will be supported by First Bullion. National Treasure will provide the design and arts direction for virtual reality environment and the creation of virtual artists in such environment. The Board considers that, if the above business plan could be materialized, this would enable the Group to expand its development in the virtual reality and even Metaverse businesses.

Should any legally binding agreement on the establishment of the JV Company to be entered into between the parties constitute a notifiable transaction for the Company under the GEM Listing Rules, further announcement(s) will be made by the Company as and when appropriate in compliance with the GEM Listing Rules.

Further details of the LOC are set out in the announcement of the Company dated 22 February 2022.

Discloseable Transaction – Acquisition of the entire issued share in Wise Circuit Limited involving issue of consideration shares under general mandate

On 29 November 2021, the Company as the purchaser entered into an agreement (the "**Sale and Purchase Agreement**") with Great Success Investment Holdings Limited (the "**Vendor**") and the Leung Tak Chee Frankie ("**Mr Leung**") as guarantor, pursuant to which the Company has conditionally agreed to purchase and the Vendor has conditionally agreed to sell the one ordinary share of Wise Circuit Limited (the "**Wise Circuit**"), representing the entire issued share in Wise Circuit (the "**Sale Share**") at a total consideration of HK$18,800,000 (the "**Wise Circuit Acquisition**").

The consideration shall be satisfied by the Company on completion of the sale and purchase of the Sale Share by allotting and issuing to the Vendor 166,477,367 ordinary shares of HK$0.01 each in the share capital of the Company (the "**2021 New Shares**") by Company for the purpose of settlement of the consideration for the Sale Share under the Sale and Purchase Agreement (the "**Wise Circuit Consideration**"), at the issue price of approximately HK$0.113 for each 2021 New Share (the "**Issue Price**") (the "**Wise Circuit Consideration Shares**") credited as fully paid.

The Wise Circuit Consideration was determined after arms' length negotiations between the Company and the Vendor taking into account the preliminary valuation of the properties beneficially owned by MMR Four Property Sdn. Bhd., a company incorporated in Malaysia and an indirect wholly-owned subsidiary of Wise Circuit (the "**Malaysian Subsidiary**"), namely four service apartment units with an aggregate gross floor area of 8,000 sq. ft. in Block R1 of the development project known as MM Residency, which is located at the north-eastern side of Jalan Melawati 1 near its junction with Jalan G 1, Melawati, Selangor, Malaysia (the "**Properties**") of HK$20,700,000 as at 1 November 2021 by CresVAL Corporate Advisory Group Limited, an independent valuer, based on direct comparison method.

The Issue Price represents (i) a premium of approximately 9.71% over the closing price of HK$0.103 per 2021 New Share as quoted on the Stock Exchange on 29 November 2021, being the date of the Sale and Purchase Agreement and (ii) a premium of approximately 2.73% over the average closing price of HK$0.11 per 2021 New Share for the five consecutive trading days up to and including the date of the Sale and Purchase Agreement. The Issue Price was arrived at after arm's length negotiations between the parties to the Sale and Purchase Agreement after taking into account the prevailing market price of the 2021 New Shares.

When allotted and issued, the Wise Circuit Consideration Shares represent approximately (i) 20.00% of the existing issued share capital of the Company as at the date of the Sale and Purchase Agreement and (ii) 16.67% of the issued share capital of the Company as enlarged by the allotment and issue of the Wise Circuit Consideration Shares. The Wise Circuit Consideration Shares, when allotted and issued, will rank pari passu in all respects with the 2021 New Shares in issue.

The Wise Circuit Consideration Shares will be allotted and issued pursuant to the general mandate granted to the Directors pursuant to an ordinary resolution passed at the Company's annual general meeting on 23 November 2021 to allot and issue up to 166,477,367 2021 New Share, representing 20% of the total number of 2021 New Shares on the date of passing such resolution general mandate. The maximum number of 2021 New Shares that can be issued under the general mandate is 166,477,367 2021 New Shares. As at the date of this announcement, the Company has not allotted and issued any 2021 New Shares pursuant to the general mandate and the general mandate is sufficient for the allotment and issue of the Wise Circuit Consideration Shares.

Guarantee

Pursuant to the Sale and Purchase Agreement, Mr. Leung has given a guarantee in favour of the Company for the full, punctual and complete performance of the obligations of the Vendor under the Sale and Purchase Agreement.

Return guarantee

Pursuant to the Sale and Purchase Agreement, the Company shall lease the Properties to the Vendor for its operations, and the Vendor irrevocably warrants and guarantee to the Company the following return (being the return net of all operating expenses, including management fees, utilities expenses, rates, levies, taxes and insurance in relation to the Properties) from the Properties (the "**Guaranteed Return**") during each of the following periods (the "**Guaranteed Period**"):

(a) 12 month period commencing on 1 April 2023 and ending on 31 March 2024 a return equivalent to 3.5% of the Wise Circuit Consideration;

(b) 12 month period commencing on 1 April 2024 and ending on 31 March 2025 a return equivalent to 4.25% of the Wise Circuit Consideration;

(c) 12 month period commencing on 1 April 2025 and ending on 31 March 2026 a return equivalent to 4.75% of the Wise Circuit Consideration;

(d) 12 month period commencing on 1 April 2026 and ending on 31 March 2027 a return equivalent to 5.25% of the Wise Circuit Consideration; and

(e) 12 month period commencing on 1 April 2027 and ending on 31 March 2028 a return equivalent to 5.75% of the Wise Circuit Consideration.

For the avoidance of doubt, the above guarantee shall not be affected even if the TSA Land Sdn. Bhd., (the "**Developer**") fails to deliver the vacant possession of the Properties to the Malaysian Subsidiary prior to the commencement of the Guaranteed Period.

If the actual return (being the return net of all operating expenses, including management fees, utilities expenses, rates, levies, taxes and insurance in relation to the Properties) from the Properties (the "**Actual Return**") for each of the periods in the Guaranteed Period is less than the Guaranteed Return, then the Vendor shall pay to the Company in cash the difference between Guaranteed Return and Actual Return.

Put Option

Pursuant to the Sale and Purchase Agreement, the Vendor granted to the Company the put option to require the Vendor to purchase from the Company the Sale Share (the "**Put Option**") whereby in the sole event that the Developer has not delivered the vacant possession of the Properties on or before 31 December 2025, the Company may exercise the Put Option at its discretion during the period commencing on 1 January 2026 and ending on 31 March 2026 (or such later date as may be agreed by the Company, the Vendor and the Guarantor in writing) (the "**Put Option Period**") to require the Vendor to purchase from the Company the Sale Share at the amount equivalent to the Wise Circuit Consideration (the "**Put Option Price**").

Upon the exercise of the Put Option, (i) the Company shall as beneficial owner sell and the Vendor shall purchase the Sale Share free from all liens, charges, encumbrances, equities and other adverse third party rights and together with all rights attaching thereto as at the Put Option Completion Date; and (ii) the Guaranteed Period shall end on 31 March 2026 and the Vendor shall no longer warrant and guarantee to the Company the Guaranteed Return for the 12 month period commencing on 1 April 2026 and ending on 31 March 2027 and the 12 month period commencing on 1 April 2027 and ending on 31 March 2028.

In the event that the Company decides to exercise the Put Option, the exercise of the Put Option may constitute a notifiable transaction on the part of the Company under the GEM Listing Rules. The Company shall make further announcement(s) in relation to the exercise of the Put Option in compliance with the GEM Listing Rules as and when appropriate.

Conditions Precedent

Completion was conditional upon the satisfaction or waiver (as the case may be) of the following conditions:

(a) the Company being reasonably satisfied with the results of the due diligence review on the assets, liabilities, operations and affairs of the Wise Circuit;

(b) all necessary consents, licences and approvals required to be obtained on the part of the Vendor and the Wise Circuit in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder having been obtained and remain in full force and effect;

(c) all necessary consents, licences and approvals required to be obtained on the part of the Company in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder having been obtained and remain in full force and effect;

(d) the warranties given by the Vendor under the Sale and Purchase Agreement remaining true and accurate in all respects;

(e) the warranties given by the Company under the Sale and Purchase Agreement remaining true and accurate;

(f) the obtaining of a Malaysian legal opinion (in the approval form) from a firm of Malaysian legal advisers appointed by the Company;

(g) the obtaining of a valuation report (in the approval form) from a firm of independent professional valuers appointed by the Company showing the Valuation to be not less than the Wise Circuit Consideration; and

(h) the GEM Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Wise Circuit Consideration Shares.

The Company may at its absolute discretion at any time waive in writing any of the conditions set out in (a) and (d) above. The Vendor may at its absolute discretion at any time waive in writing the condition set out in (e) above. Other conditions are incapable of being waived by any of the parties to the Sale and Purchase Agreement. In the event that any of the conditions of the Wise Circuit Acquisition are not fulfilled on or before 31 December 2021 (or such later date as the Vendor and the Company may agree) (the "**Long Stop Date**"), the Sale and Purchase Agreement shall cease and determine and thereafter neither party shall have any obligations and liabilities under the Sale and Purchase Agreement save for any antecedent breaches of the terms thereof.

On 31 December 2021, the Vendor and the Company have agreed to extend the Long Stop Date to 25 February 2022. The Board considers that the extension of the Long Stop Date would be in the interests of the Company and the shareholders as a whole. Save and except for the aforesaid extension of the Long Stop Date, all other terms of the Sale and Purchase Agreement remains unchanged.

Reason for and benefit of the Wise Circuit Acquisition

The Company is principally engaged in investment holdings. 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 hotels.

It has been the Company's objective to explore investment opportunities in property investment in overseas countries, with an aim to deliver reasonable returns for shareholders through a series of acquisitions and proposed cooperation. The Company considers that the Wise Circuit Acquisition is in line with the overall business direction of the Group and is a good investment opportunity to step into the property investment industry in the Malaysia property market.

In addition, the Company intends to hold the Properties for investment purpose and lease the Properties to the Vendor for its operations. The Vendor, together with Mr. Leung, have agreed to guarantee with the Company the return of the Properties. Taking into account the prime location of the Properties located in Selangor, the Group believes that the Wise Circuit Acquisition could generate stable cashflow and income to the Group and may enjoy potential capital appreciation in the future.

The Directors consider that for the first five years upon the completion of the construction of the Properties, the Group shall monitor the operations of the Properties and the Vendor shall act as the operator of the Properties. During such period, apart from gaining more understanding about property investment industry and the property market in Malaysia, the Group can also take the opportunity to gain more experience, expand its business network and develop more business connections in the property market industry in Malaysia by acting as a passive investor. Despite the Company's intention to continue the existing businesses of the Group, the Company may also explore other business opportunities from time to time which have a synergistic effect on the Group's existing business in order to enhance long-term growth potential of the Group.

Accordingly, the Directors is of the view that the Wise Circuit Acquisition provides a good opportunity for the Company to explore investment opportunities in overseas countries with an aim to deliver reasonable returns for shareholders and enhance long-term growth potential of the Company.

In view of the above, the Directors consider that the entering into of the Sale and Purchase Agreement and the terms of the Wise Circuit Acquisition, including the Wise Circuit Consideration, are on normal commercial terms, fair and reasonable and are in the interests of the Company and the shareholders as a whole.

Implications under the GEM Listing Rules

As one or more of the applicable percentage ratios in respect of the Wise Circuit Acquisition are more than 5% but less than 25%, the Wise Circuit Acquisition constitutes a discloseable transaction on the part of the Company under Chapter 19 of the GEM Listing Rules and is therefore subject to the reporting and announcement requirements under Chapter 19 of the GEM Listing Rules.

Completion

Completion took place on 15 February 2022. The Wise Circuit Consideration has been settled by the allotment and issue of 166,477,367 Wise Circuit Consideration Shares to the Vendor.

Further details of the Wise Circuit Acquisition are set out in the Company's announcements dated 29 November 2021, 10 December 2021, 28 December 2021, 31 December 2021 and 15 February 2022 and the next day disclosure return of the Company dated 15 February 2022.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2021, the Group had a total of 49 (2020: 116) staff based in the PRC and Hong Kong. The Group remunerates its employees based on their performances, experiences and the prevailing industry practices. In addition to basic salaries and mandatory provident fund, staff benefits including medical coverage scheme and share options are offered.

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

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

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

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2021.

COMPETING INTERESTS

None of the Directors or controlling Shareholders (as defined in the GEM Listing Rules) or their respective close associates had any interest, whether directly or indirectly, in a business which competes or may compete with the business of the Group during the year ended 31 December 2021.

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 complied with all of the code provisions set out in the Corporate Governance Code contained in Appendix 15 of the GEM Listing Rules then in force (the "**Corporate Governance Code**") during the year ended 31 December 2021, except the following: As Mr. Chow Kai Weng has served as both the chairman (the "**Chairman**") and the chief executive officer (the "**Chief Executive Officer**") of the Company from 22 July 2021, such practice deviates from the code provision A.2.1 of the Corporate Governance Code. The Board believes that vesting the roles of both the Chairman and the Chief Executive Officer in the same person can facilitate the execution of the Group's business strategies and enhance effectiveness of its operation. Therefore, the Board considers that the deviation from the code provision A.2.1 of the Corporate Governance Code is appropriate in such circumstances. The Group nevertheless will review the structure from time to time in light of the prevailing circumstances.

REQUIRED STANDARD OF DEALINGS FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company throughout the year ended 31 December 2021.

AUDIT COMMITTEE

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

During the year under review, the Audit Committee reviewed the Company's annual reports and financial statements, interim reports and quarterly reports and discussed with the management over issues relating to auditing, internal control and financial reporting. The unaudited financial results of the Group for the year ended 31 December 2021 have been reviewed and agreed by the Audit Committee.

DELAY IN PUBLICATION OF AUDITED FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021 AND DESPATCH OF THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

The unaudited financial results of the Group for the year ended 31 December 2021 have not been agreed by the auditors of the Company.

The Company is unable to publish an audited final results announcement that has been agreed with the auditors of the Company in accordance with Rule 18.49 of the GEM Listing Rules as a result of the outbreak of the COVID-19 pandemic. The Group's field audit in the PRC for the year ended 31 December 2021 has been temporarily disrupted by the implementation of the COVID-19 pandemic prevention and control quarantine measures in certain cities in the PRC. Recently, the staff of the Company's auditor who are located in Shenzhen were restricted to enter Foshan city to conduct field audit work in respect of the Hotel and the Studio, due to the restriction on the entry of people from high-risk cities. Further to the temporary reduction in the manpower of the Company and changes in working environment resulting from the COVID-19 pandemic in Hong Kong, the preparation of requested information was slackened and thus affected the valuation work and the audit progress. The Company currently expects that additional time will be required to complete the relevant audit work and hence there will be a delay in the publication of the audited results of the Group for the year ended 31 December 2021 and the despatch of the annual report of the Company for the year ended 31 December 2021. Upon the completion of audit procedures, the audited final results for the year ended 31 December 2021 and the annual report of the Company for the year ended 31 December 2021 will be published on or before 31 May 2022 as expected by the auditor of the Company.

Expected potential material difference between unaudited annual results and audited annual results

Since the audit process has not yet been completed and the valuation process performed by valuers have also been delayed resulting from the COVID-19 pandemic, the unaudited annual results of the Group contained herein have not yet been agreed with the auditor of the Company. An announcement relating to the audited annual results will be made when the audit process has been completed in accordance with the Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed the financial reporting matters including the unaudited annual results contained herein. Up to the date of this announcement, as the valuation process on (i) impairment loss assessment on property, plant and equipment; (ii) expected credit loss on trade receivables and other financial assets; and (iii) fair value changes on investment properties have not been completed, the Audit Committee and the management expected that, upon completion of the valuation process, there may be material adjustments to the figures shown in the Group's audited consolidated financial statements in relation to these items. In addition, subject to the review of the Group's accounting estimates by the auditors, the Audit Committee and the management expected that, upon completion of the audit, there may be adjustments to the depreciation of property, plant and equipment and depreciation of right-of-use assets.

The financial information of the Group for the year ended 31 December 2021 contained herein in respect of the annual results of the Group have not been audited and have not been agreed with the auditor. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

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

Hong Kong, 28 March 2022

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

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.