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

If you have sold or transferred all your shares in National Arts Entertainment and Culture Group Limited (the “Company”), you should at once hand this circular with the enclosed proxy form to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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National Arts

NATIONAL ARTS ENTERTAINMENT AND CULTURE GROUP LIMITED

國藝娛樂文化集團有限公司*

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 8228)

**(1) MAJOR AND CONNECTED TRANSACTION
RELATING TO THE SALE AND PURCHASE OF
THE ENTIRE SHARE CAPITAL IN
LUX UNICORN LIMITED INVOLVING THE ISSUE OF
PROMISSORY NOTES AND CONVERTIBLE BOND
AND
(2) NOTICE OF SPECIAL GENERAL MEETING**

Financial Adviser to the Company



英皇融資有限公司
Emperor Capital Limited

Independent Financial Adviser to the Independent Board Committee
and Independent Shareholders

Beijing Securities
Beijing Securities Limited
北京證券有限公司

Capitalised terms used in this cover have the same meanings as those defined in this circular.

A letter of advice from Beijing Securities Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, is set out on pages 31 to 60 of this circular and a letter of recommendation from the Independent Board Committee to the Independent Shareholders is set out on pages 29 to 30 of this circular.

A notice convening the SGM to be held on Friday, 10 April 2015 at 10:30 a.m. at Unit B, 2/F, Jone Mult Factory Building, 169 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong is set out on pages 118 to 120 of this circular. Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed proxy form in accordance with the instructions printed thereon to the Hong Kong branch share registrar and transfer office of the Company, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof (as the case may be). Completion and return of the proxy form shall not preclude you from attending and voting in person at the SGM or any adjourned meeting thereof (as the case may be) should you so wish.

This circular will remain on the “Latest Company Announcements” page of the GEM website at <http://www.hkgem.com> for a minimum period of 7 days from the date of its posting and on the website of the Company at <http://www.nationalarts.hk>

* For identification purpose only

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate 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. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	7
Letter from the Independent Board Committee	29
Letter from Beijing Securities	31
Appendix I – Financial information of the Group	61
Appendix II – Financial Information of the Target Company	63
Appendix III – Unaudited Pro Forma Financial Information of the Enlarged Group	84
Appendix IV – Valuation Report of the Properties of the Target Company	93
Appendix V – General Information	102
Notice of SGM	118

DEFINITIONS

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

“Acquisition”	the purchase of the Sale Shares and the Loan by the Purchaser in accordance with the terms of the Sale and Purchase Agreement
“Announcement”	the announcement dated 22 December 2014 issued by the Company in relation to, among other things, the Acquisition
“associate(s)”	the meaning ascribed thereto under the GEM Listing Rules
“Beijing Securities” or “IFA”	Beijing Securities Limited, a corporation licensed to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO). The independent financial adviser to the Independent Board Committee and Independent Shareholders on the Acquisition according to the GEM Listing Rules
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday and Sunday) on which banks are generally open for business more than five hours in Hong Kong
“Completion”	completion of the Sale and Purchase Agreement
“Company”	National Arts Entertainment and Culture Group Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability, the Shares are listed on Growth Enterprise Market of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it in the GEM Listing Rules
“Conditions Precedent(s)”	the conditions precedent to the Completion
“Consideration”	the total consideration for the Acquisition in the sum of HK\$400,000,000, subject to the adjustments in accordance with the Sale and Purchase Agreement
“Conversion Price”	HK\$0.18 per Conversion Share, subject to adjustments, pursuant to the terms of the Convertible Bond
“Conversion Share(s)”	the Share(s) to be issued by the Company upon conversion of the Convertible Bond

DEFINITIONS

“Convertible Bond”	convertible bond in the principal amount of HK\$300,000,000 to be issued by the Company to the Vendor in partial settlement of the Consideration
“Director(s)”	director(s) of the Company
“EPL”	Expand Pacific Limited, a company incorporated in Hong Kong and owned as to 100% by Glory Max Group Limited, a wholly-owned subsidiary of the Company
“First Series CB”	the outstanding convertible bonds of the Company in the aggregate principal amount of HK\$64,400,000 convertible into 59,028,414 Shares at the adjusted conversation price of HK\$1.091 per Share (subject to further adjustment) with the maturity date of the date falling on the day being the second anniversary of the issue date issued pursuant to the placing and underwriting agreement dated 16 April 2013 entered into between the Company and Emperor Securities Limited, details of which are contained in the announcement of the Company dated 16 April 2013
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HRL”	Head Return Limited, a company incorporated in Hong Kong and owned as to 100% by Wealthy Day Enterprises Limited, a wholly-owned subsidiary of the Company
“Independent Board Committee”	the independent committee of the Board comprising four independent non-executive Directors, namely, Mr. Chan Tin Lup, Trevor, Mr. Chui Chi Yun, Robert, Prof. Wong Lung Tak, Patrick and Mr. Li Kit Chee, which has been formed for the purpose of advising the Independent Shareholders as to the Sale and Purchase Agreement and the transactions contemplated thereunder (comprising the Acquisition, the issue of the Convertible Bond, the issue of the Conversion Shares, the Interest Conversion Shares and the issue of the Promissory Notes)

DEFINITIONS

“Independent Shareholder(s)”	shareholders other than the Vendor and his associates as defined in the GEM Listing Rules
“Interest Conversion Arrangement”	the arrangement that the holder of the Convertible Bond can request the Company to pay interest to him by way of allotment and issuance of new Shares in lieu of cash pursuant to the terms of the Convertible Bond
“Interest Conversion Price”	the price for the issuance and allotment of the Interest Conversion Shares under the Interest Conversion Arrangement, which is equivalent to the Conversion Price
“Interest Conversion Shares”	the Shares to be issued under the Interest Conversion Arrangement
“Land”	Parcels of land with a total site area of approximately 368.33 mu (畝) (245,553.33 sq.m.) located close to Huanshan Road, Xiqiao Town, Nanhai District, Foshan City, Guangdong Province, the PRC
“Loan”	all loan(s) owed by the Target Company to the Vendor as at Completion
“Last Trading Day”	22 December 2014 being the last trading day prior to the entering into of the Sale and Purchase Agreement
“Latest Practicable Date”	18 March 2015, being the latest practicable date prior to the printing of this circular for ascertaining contain information set out in this circular
“Lease Agreement”	the lease agreement dated 1 November 2013 (as supplemented by the 1st supplemental lease agreement dated 3 November 2013, the 2nd supplemental lease agreement dated 5th November 2013 and the 3rd supplemental lease agreement dated 12 March 2015) entered into between the Target Company and the Lessor Company
“Lessor Company”	Nanhai District Xiqiaoshan Forest Park Goods and Materials Company (佛山市南海區西樵山森林公園物資公司), an indirect wholly-owned subsidiary of the local government of Xiqiao Mountain, Foshan, the PRC
“Long Stop Date”	30 June 2015 or such other day as the parties may agree in writing

DEFINITIONS

“Miss Law”	Miss Law Po Yee, the vice chairperson , an executive Director, the chief executive officer and the spouse of Mr. Sin
“Mr. Sin”	Mr. Sin Kwok Lam, a non-executive Director and Chairman and a substantial shareholder of the Company
“New Share Options”	the outstanding 10,787,062 share options granted by the Company pursuant to the New Share Option Scheme entitling the holders of the New Share Options to subscribe for 10,787,062 new Shares
“New Share Option Scheme”	the share option scheme of the Company adopted on 29 September 2010
“No-Certificate Land”	a piece of land with a total area of approximately 14.2 mu (畝), which are located and comprised in the Land
“Post-IPO Share Options”	the outstanding 12,885,263 share options granted by the Company pursuant to the Post-IPO Share Option Scheme entitling the holders of the Post-IPO Share Options to subscribe for 12,885,263 new shares
“Post-IPO Share Option Scheme”	The post-IPO share option scheme adopted by the Company on 22 July 2002
“PRC”	the People’s Republic of China which, for the purpose of this circular, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC Legal Opinion”	A legal opinion on the Target Company and the Land issued by a PRC law firm approved by the Purchaser (in form and substance and in all respects satisfactory to the Purchaser)
“Promissory Notes”	the Promissory Note 1 and Promissory Note 2
“Promissory Note 1”	an instrument to be executed by the Company for the principal amount of HK\$80,000,000 (or as adjusted in accordance with the terms of the Sale and Purchase Agreement) in partial settlement of the Consideration
“Promissory Note 2”	an instrument which may be executed by the Company for the principal amount of HK\$20,000,000 in partial settlement of the Consideration

DEFINITIONS

“Purchaser”	Elegant Motion Enterprises Limited (雅動企業有限公司), a company incorporated in the British Virgin Islands with limited liability and a direct wholly owned subsidiary of the Company
“Rental Saving”	the value of the aggregate rental saving to the Group in respect of the Land under the land lease term
“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Purchase Agreement”	the agreement dated 22 December 2014 entered into between the Vendor, the Purchaser and the Company relating to the Acquisition
“Sale Shares”	100 shares, representing the entire issued share capital of the Target Company, which are sold and purchased under the Sale and Purchase Agreement
“Second Series CB”	the outstanding convertible bonds of the Company in the aggregate principal amount of HK\$159,600,000 convertible into 150,141,110 Shares at HK\$1.063 per Share (subject to adjustment) with the maturity date of the date falling on the day being the third anniversary of the issue date issued pursuant the acquisition agreement dated 28 June 2013 entered into between the Company (as Purchaser) and Mr. Sin (as Vendor), details of which are contained in the announcement of the Company dated 9 July 2013
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened and held on 10 April 2015 at 10:30 a.m. for the purpose of considering and, if thought fit, approving the Sale and Purchase Agreement and the transactions contemplated thereunder (comprising the Acquisition, the issue of the Convertible Bond, the issue of the Conversion Shares and the Interest Conversion Shares and the issue of the Promissory Notes)
“Shareholder(s)”	shareholder(s) of the Company
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Share Options”	the Post-IPO Share Options and the New Share Options

DEFINITIONS

“Share Options Holder(s)”	the holder(s) of the outstanding Share Options
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“Target Company”	Lux Unicorn Limited, a company incorporated in Hong Kong with limited liability and beneficially wholly-owned by Mr. Sin
“Unlisted Warrants”	warrants of the Company with rights to subscribe for 72,204,399 Shares at the adjusted subscription price of HK\$1.091 per Share (subject to further adjustment) exercisable by the holders until the maturity date, details of which are contained in the announcement of the Company dated 16 April 2013
“Vendor”	Mr. Sin

Unless the context requires otherwise, all amounts in RMB are translated into HK\$ at an exchange rate of RMB1.00 : HK\$1.25. Such translation should not be construed as a representation that the amount in question has been, could have been or could be converted at any particular rate at all.

LETTER FROM THE BOARD



National Arts

**NATIONAL ARTS ENTERTAINMENT AND
CULTURE GROUP LIMITED
國藝娛樂文化集團有限公司***

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)
(Stock Code: 8228)

Chairman and Non-executive Director:
Mr. Sin Kwok Lam

*Vice Chairperson, Executive Director
and Chief Executive Officer:*
Miss Law Po Yee

Executive Directors:
Mr. Chow Kai Weng
Miss Sin Ho Yee

Non-executive Director:
Mr. Li Sin Hung Maxim

Independent Non-executive Directors:
Mr. Chan Tin Lup Trevor
Mr. Chui Chi Yun Robert
Prof. Wong Lung Tak Patrick
Mr. Li Kit Chee

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

*Principle place of business
in Hong Kong*
Unit B, 2/F,
Jone Mult Factory Building,
169 Wai Yip Street,
Kwun Tong, Kowloon
Hong Kong

23 March 2015

To the Shareholders

Dear Sir or Madam,

**(1) MAJOR AND CONNECTED TRANSACTION
RELATING TO THE SALE AND PURCHASE OF
THE ENTIRE SHARE CAPITAL IN
LUX UNICORN LIMITED INVOLVING THE ISSUE OF
PROMISSORY NOTES AND CONVERTIBLE BOND
AND
(2) NOTICE OF SPECIAL GENERAL MEETING**

1. INTRODUCTION

Reference is made to the Announcement in relation to the Acquisition.

* For identification purpose only

LETTER FROM THE BOARD

The Board announced that on 22 December 2014 (after trading hours), the Vendor, the Purchaser, a direct wholly-owned subsidiary of the Company, and the Company entered into the Sale and Purchase Agreement. Pursuant to the Sale and Purchase Agreement, the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase, subject to fulfilment of the Conditions Precedent, the Sale Shares, representing the entire issued share capital of the Target Company, and the Loan at the Consideration of HK\$400,000,000, subject to adjustments.

The purpose of this circular is to provide you with, among other things, (i) further details of the Sale and Purchase Agreement and the transactions contemplated thereunder, (ii) a letter from the Independent Board Committee, (iii) a letter of advice from the IFA, (iv) the financial and other information of the Group; (v) the financial information of the Target Company; (vi) the unaudited pro forma financial information of the Group as enlarged by the Acquisition; (vii) the valuation report prepared by an independent valuer on the Target Company; and (viii) the notice of the SGM.

2. THE ACQUISITION

The Sale and Purchase Agreement

Date

22 December 2014 (after trading hours)

Parties to the Sale and Purchase Agreement

Vendor: Mr. Sin

Purchaser: Elegant Motion Enterprises Limited (雅動企業有限公司), a direct wholly-owned subsidiary of the Company

Company: National Arts Entertainment and Culture Group Limited

The Vendor is a non-executive director, the Chairman and a substantial shareholder of the Company holding approximately 24.47% (together with his associates) of the issued share capital of the Company. The Vendor is therefore a connected person of the Company. The Target Company is beneficially wholly-owned by the Vendor.

Assets to be acquired

Pursuant to the Sale and Purchase Agreement, the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase, subject to fulfilment of the Conditions Precedent, the Sale Shares, representing the entire issued share capital of the Target Company, and the Loan. Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company and the financial results of the Target Company will be consolidated into the Group.

LETTER FROM THE BOARD

Consideration

The Consideration for the Acquisition shall be HK\$400,000,000, subject to adjustments in accordance with the Sale and Purchase Agreement.

Subject to adjustments set out below, the Consideration shall be settled in the following manner in accordance with the terms of the Sale and Purchase Agreement:

- (a) as to HK\$80,000,000, which shall be satisfied by issuance of the Promissory Note 1 to the Vendor or its nominee on Completion;
- (b) as to HK\$300,000,000 by the issuance of the Convertible Bond in the principal amount of HK\$300,000,000 to the Vendor or its nominee on Completion; and
- (c) provided that the land use rights certificate in relation to the No-Certificate Land having been obtained to the satisfaction of the Purchaser, as to the balance of HK\$20,000,000, by the issuance of the Promissory Note 2 to the Vendor or its nominee on the date of confirmation by the Purchaser that such certificate having been obtained to its satisfaction.

In the event that the Rental Saving in respect of the Land confirmed in the valuation report is less than RMB318,000,000 (approximately HK\$397,500,000) (“Guaranteed Value”), the Consideration shall be adjusted by reducing therefrom an amount equal to the difference between the Guaranteed Value and the Rental Saving. Adjustments to the Consideration shall be made by way of reducing the principal amount of the Promissory Note 1. The Guaranteed Value was determined with reference to the preliminary assessment on the valuation of the Rental Saving during the land lease term from 1 November 2013 to 31 March 2051 estimated by RHL Appraisal Limited, an independent valuer.

As the Rental Saving shown in the valuation report of RHL Appraisal Limited set out in Appendix IV to this circular (“**Valuation Report**”) is not less than the Guaranteed Value, no adjustment to the Consideration in terms of the principal amount of Promissory Note 1 is required.

According to the Valuation Report, the Rental Saving is assessed based on (a) capitalizing the profit rent during the residual term of the lease to arrive at an aggregated amount, where a profit rent exists when the tenant is making a saving because the contractual rent to be paid is less than the fair market rental value, and (b) the future market rent which will be adjusted in line with the percentage of increment as stipulated in the Lease Agreement, where the Lease Agreement is for a term from 1 November 2013 to 31 March 2031 and automatically renewed for another 20 years. The capitalization rate of 8.1% which is derived by making reference to property yields of property transactions in the same locality and cross reference with cost of capital of companies of similar nature is adopted in the assessment.

In the Valuation Report, no commercial value has been assigned to the Land as it is stipulated in the Lease Agreement the property interests is not freely transferable in current status and hence no explicit market value shall be allocated. However, by the Acquisition, the

LETTER FROM THE BOARD

Group can secure the lease agreement to the Land with contractual rent which is significantly lower than the fair market rent, where the annual current market rent is approximately RMB30,240,000 (equivalent to approximately HK\$37,800,000) as stated in the Valuation Report. As the Company will develop the Land as an extension of the Xiqiao National Arts Film Studio project, the Rental Saving would significantly reduce operating cost and hence increase profitability of the Xiqiao National Arts Film Studio project, the Directors consider that the Rental Saving reasonably reflects the value derived from the Acquisition and is a fair reference in determining the Consideration.

In the event that the land use rights certificate in relation to the use of the No-Certificate Land have not been obtained on or before 31 December 2015, the Consideration shall be adjusted by reducing therefrom an amount of HK\$20,000,000, and in such event, Promissory Note 2 shall not be required to be issued. The amount of Promissory Note 2 was determined with reference to the land area of the No-Certificate Land and the Consideration on pro-rata basis (the land area of the No-Certificate Land multiplied by the Consideration and divided by the land area of the Land) and, for the benefit of the Group, rounded up to HK\$20,000,000 at the requested of the Company.

The Consideration was determined after arm's length negotiations between the parties to the Sale and Purchase Agreement after taking into consideration (i) the preliminarily assessment on the valuation of the Rental Saving during the land lease term from 1 November 2013 to 31 March 2051 estimated by RHL Appraisal Limited, an independent valuer, of RMB318,000,000 (equivalent to HK\$397,500,000); and (ii) the recent development of the film shooting base and the tourism infrastructure of Xiqiao National Arts Film Studio Project surrounding the Land. The Directors (other than the independent non-executive Directors who have given their view in the letter from the Independent Board Committee) consider the terms and conditions of the Sale and Purchase Agreement to be fair and reasonable and on normal commercial terms that are in the interests of the Company and the Shareholders as a whole.

Conditions Precedent

Completion of the Acquisition is subject to the following conditions:

- (a) approval by the Stock Exchange of the issuance by the Company of a circular to its shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder;
- (b) the passing by the Independent Shareholders in accordance with the GEM Listing Rules and all applicable laws at a special general meeting of resolutions approving :
 - (i) the Sale and Purchase Agreement and the transactions contemplated thereunder;
 - (ii) the issuance of the Convertible Bond and the Promissory Notes to the Vendor (or its nominee) pursuant to the terms provided in the Sale and Purchase Agreement;
 - (iii) the allotment and issue of the Conversion Shares upon the exercise of the conversion rights attaching to the Convertible Bond; and
 - (iv) the allotment and issue of the Interest Conversion Shares.

LETTER FROM THE BOARD

- (c) the Listing Division of the Stock Exchange having granted the approval for the listing of and permission to deal in the Conversion Shares to be issued upon conversion of the Convertible Bond and the Interest Conversion Shares;
- (d) compliance by the Company of any applicable laws of Bermuda including any consent from the Monetary Authority of Bermuda;
- (e) the representations, warranties and undertakings contained in the Sale and Purchase Agreement remaining true and accurate and not misleading at Completion as if repeated at Completion and at all times between the date of the Sale and Purchase Agreement and the date of Completion;
- (f) the Purchaser having informed the Vendor in writing that the Purchaser is satisfied with the results of the due diligence on all aspects of and relating to the Target Company and the Land. The Vendor shall not unreasonably withhold or delay in providing the Purchaser with such information and documents as may be requested by the Purchaser or its professional party(ies) during the due diligence process;
- (g) the Purchaser having received the PRC Legal Opinion on the Target Company and the Land issued by a PRC law firm approved by the Purchaser (in form and substance and in all respects satisfactory to the Purchaser); and
- (h) the Purchaser having received a valuation report prepared by an independent valuer acceptable to the Purchaser confirming the Rental Saving based on methodology, assumptions, criteria and other terms as may be accepted by the Purchaser.

Pursuant to the Sale and Purchase Agreement, the Purchaser may waive items (e) and (f) of the Conditions Precedent. As at the Latest Practicable Date, items (a), (g) and (h) have been fulfilled, and the Purchaser had no intention to waive item (e) and (f) of the Conditions Precedent.

If any of the Conditions Precedent have not been fulfilled (or waived, as the case may be) at or before 5 p.m. on the Long Stop Date, the Sale and Purchase Agreement shall cease and determine and none of the parties shall have any obligations and liabilities thereunder save for any antecedent breaches of the terms thereof.

In relation to Condition Precedent (g) above, the PRC Legal Opinion is for the purpose of the Company's due diligence and preparation of the valuation report, which include (a) verifying the title of the Land; (b) confirming whether the use of the Land is transferrable under the Lease Agreement; and (c) supporting the issue of the valuation report in respect of the Land. Taking into account that a summary of the PRC Legal Opinion has been disclosed hereinafter and that there is no specific legal issue was discovered and need to draw to the attention of the Shareholders, the full text of the PRC Legal Opinion has not been disclosed in this circular as it is considered not necessary.

LETTER FROM THE BOARD

A summary of the PRC Legal Opinion is set out below:

- i. Xiaiqoshan Company (佛山市南海區西樵山森林公園物資公司) has obtained the consent from 佛山市南海區西樵鎮儒溪村東社股份合作經濟社 (Foshan City Nanhai District Xiqiao Town Ruxi Village Dongshe Joint-Equity Economic Cooperative), 佛山市南海區西樵鎮儒溪村南社股份合作經濟社 (Foshan City Nanhai District Xiqiao Town Ruxi Village Nanshe Joint-Equity Economic Cooperative), 佛山市南海區西樵鎮儒溪村趙家股份合作經濟社 (Foshan City Nanhai District Xiqiao Town Ruxi Village Zhaojia Joint-Equity Economic Cooperative), 佛山市南海區西樵鎮儒溪村大街股份合作經濟社 (Foshan City Nanhai District Xiqiao Town Ruxi Village Dajie Joint-Equity Economic Cooperative) to sub-lease the portion of the Property with site area of 323.3137 mu (215,542.46 sq.m.);
- ii. The Lease Agreement, entered into between Lessor Company and the Target Company are legal, valid and enforceable;
- iii. Subject to the written consent from Lessor Company, the Target Company is entitled to sub-lease the Land to third parties for operation of the film production studio and tourism business during the duration of the lease, including renewal term;
- iv. Subject to the operation of the film production studio and tourism business, the Target Company is entitled to sub-lease the whole or the part of the Land to third parties for commercial use and other ancillary uses;
- v. The Target Company is legally entitled to use the land with site area of 30.8163 mu (20,544.20 sq.m.) which is covered by river under the Lease Agreement; and
- vi. The Target Company is legally entitled to use and sub-lease the land with site area of 14.2 mu (9,466.67 sq.m.) which is occupied by gas station upon Lessor Company has obtained the land use right certificate of the No-Certificate Land.

The Company considers that as it takes time to obtain the land use rights certificate for the No-Certificate Land and in view that the No-Certificate Land is not significant to the Group's development of the Land, for the purpose of facilitating completion of the Acquisition such that the Group could carry out its development on the Land without unnecessary delay, the obtaining of the land use rights certificate for the No-Certificate Land is not included as a Condition Precedent. As no major construction is expected to be carried out on the No-Certificate Land and as such, the Board is of the view that the No-Certificate Land will not significantly affect the development of the Land.

LETTER FROM THE BOARD

As advised by the PRC legal advisor of the Company, it is unlikely that there will be any legal consequences against the Company and/or the Target Company if the Lessor Company fails to obtain the land use rights certificate of the No-Certificate Land. Under the Sale and Purchase Agreement, neither the Company nor the Target Company has the obligation to apply for the land use rights certificate of the No-Certificate Land.

Save for the No-Certificate Land, relevant land use rights certificate of the Land has been obtained. To the best knowledge of the Company, as the No-Certificate Land is occupied by a gas station operated by the local government, it is unlikely that land use rights certificate thereof would be issued under the current circumstances. However, as confirmed by the Target Company, the gas station is currently under relocation and application for the land use rights certificate of the No-Certificate Land has been made. Subject to completion of the relocation of the gas station, it is expected that the relevant land use rights certificate of the No-Certificate Land would be obtained, the earliest, in the second quarter of 2015.

Completion

Completion of the Sale and Purchase Agreement shall take place within 3 Business Days upon the Conditions Precedent being satisfied, fulfilled and/or waived (as the case may be).

3. CONVERTIBLE BOND

Pursuant to the Sale and Purchase Agreement, the Company has agreed to issue the Convertible Bond to the Vendor or its nominee for partial settlement of the Consideration in accordance with the terms and conditions thereof.

The principal terms of the Convertible Bond are summarised as follows:

Principal Amount:	HK\$300,000,000
Maturity:	The date falling on the day being the third anniversary of the issue date of the Convertible Bond or if that is not a Business Day, the first Business Day thereafter
Interest:	9% per annum, accrued daily on a 365 days basis and payable annually in arrear.

The interest rate of 9% per annum was determined by the Vendor, the Purchaser and the Company on an arm's length basis with reference to the interest rate of the convertible bonds with terms of three years issued by companies listed on the Main Board and Growth Enterprise of the Stock Exchange and excluded those contained floating interest rate or conversion price at a discount over the closing price on the last trading day as per corresponding announcement of the comparable companies within 3 months prior to signing of the Sale and

LETTER FROM THE BOARD

Purchase Agreement. The interest rate of such convertible bonds, which were issued to independent third parties, ranged from 0% to 9% per annum.

The Board considered that the interest rate of the Convertible Bond which was determined by reference to the comparable companies is fair and reasonable in view that (i) the comparable companies are companies listed on Stock Exchange which adequately reflect the prevailing market conditions in Hong Kong stock market even though the circumstances of each comparable company are unique and (ii) the comparable companies have issued convertible bonds within the 3 months prior to the signing of the Sale and Purchase Agreement which adequately reflect the recent structure of issuance of convertible bonds in Hong Kong.

The bondholder shall be entitled to request the Company to pay interest to it under the provisions of the Convertible Bond by way of allotment and issuance of Interest Conversion Shares at the due day of the interest payment in lieu of payment by cash by giving not less than seven (7) Business Days' written notice prior to the due date for payment of interest.

The number of such Shares to be allotted and issued shall equal to the amount of the interest to be paid to the bondholder divided by the Conversion Price per Share on the due day of interest payment subject to adjustments as described in the provisions of the Convertible Bond provided that the bondholder shall not request the Company to pay interest by way of allotment and issuance of Interest Conversion Shares to the extent that immediately after such allotment and issuance (i) the bondholder 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 in such percentage as may from time to time be specified in the Takeovers Code being the level for triggering a mandatory general offer) or otherwise, such that a general offer shall be given in accordance with the requirement of the Takeovers Code or where applicable, waiver from the shareholders of the Company has been obtained in accordance with the Takeovers Code or (ii) there will not be sufficient public float of the Shares as required under the GEM Listing Rules, unless prior approval or waiver has been obtained from the Stock Exchange for such purposes and where any conditions to which such approval or waiver is subject are duly complied with.

LETTER FROM THE BOARD

Conversion Price:	Initially HK\$0.18 per Conversion Share, subject to adjustments in accordance with the provisions of the Convertible Bond. The Conversion Price is subject to normal adjustment in certain events such as subdivision or consolidation of the shares, capitalisation issue, capital distribution, rights issue and issue of convertible or exchangeable securities or shares issue at price less than 90% of the market price.
Conversion Period:	The period commencing from the date of first issue of Convertible Bond up to and including the date falling on the seventh day immediately prior to the maturity date of the Convertible Bond provided that if (a) the Company shall default in making payment in full in respect of the Convertible Bond which shall have been called for redemption on the date fixed for redemption thereof or (b) the Convertible Bond has become due and payable prior to the maturity date by reason of the occurrence of any of the events of default described in the instrument constituting the Convertible Bond or (c) the Convertible Bond is not redeemed on the maturity date, without prejudice to the right of the holder of the Convertible Bond to receive default interest, the conversion right attaching to such Convertible Bond will revive and/or will continue to be exercisable up to, and including, the close of business on the date upon which the full amount of the moneys (both principal and interest) payable in respect of the Convertible Bond has been duly received by the holder of the Convertible Bond
Conversion Rights:	The holder of the Convertible Bond shall have the right to convert the whole or any part (in minimum amount of HK\$300,000 or an integral multiple thereof) of the outstanding principal amount of the Convertible Bond into Shares during the conversion period at the Conversion Price provided that no holder of the Convertible Bond shall exercise any Conversion Rights to the extent that immediately after such conversion (i) the holder of the Convertible Bond 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 Takeovers Code 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 Takeovers Code or (ii) there will not be sufficient public float of the Shares as required under the GEM Listing Rules

LETTER FROM THE BOARD

Status:	The Convertible Bond or any part(s) thereof constitutes direct, general, unconditional, unsubordinated and unsecured obligations of the Company and rank, and shall rank equally among themselves and pari passu and rateably without any preference among themselves, and with all other present and future, unsecured and unsubordinated obligations of the Company except for obligations accorded preference by mandatory provisions of applicable law
Voting:	The holder of the Convertible Bond will not be entitled to receive notices of, attend or vote at any meetings of the Company by reason only of being holders of the Convertible Bond
Transferability:	<p>The Convertible Bond may be transferred or assigned in whole or in part (if in part, in minimum amount of HK\$300,000 or in whole multiple thereof) to any third parties subject to the conditions, approvals, requirements and any other provisions of or under:</p> <ul style="list-style-type: none">(a) the Stock Exchange or their rules and regulations; and(b) all applicable rules and regulations, <p>provided that the Convertible Bond (or any part thereof) shall not be assigned or transferred to a connected person of the Company without prior written consent of the Company</p>
Redemption:	The Company may at any time prior to the maturity date of the Convertible Bond redeem the Convertible Bond by giving not less than 10 Business Days' notice (in whole or in part) (in minimum amount of HK\$300,000.00 or an integral multiple thereof) at 100% of the principal amount of such Convertible Bond thereof plus interest accrued thereon up to the actual date of redemption. Subject to the conditions in the instrument constituting the Convertible Bond, the holder of the Convertible Bond shall not have the right to request the Company to redeem the Convertible Bond prior to the maturity date of the Convertible Bond

LETTER FROM THE BOARD

Assuming full conversion of the Convertible Bond at the initial Conversion Price, the Convertible Bond will be convertible into 1,666,666,666 (rounded down to the nearest number of Shares) fully-paid Shares, representing approximately 57.70% of the issued share capital of the Company as at the date of this circular and approximately 36.59% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares. The Conversion Shares will be allotted and issued pursuant to the specific mandate to be sought at the SGM. Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares. The Conversion Shares will rank pari passu in all respects with the existing Shares.

For the Interest Conversion Arrangement, assuming all interest payments are to be paid by way of allotment and issuance of new Shares at the Interest Conversion Price equivalent to the initial Conversion Price, a maximum of 450,000,000 Interest Conversion Shares will be issued, representing approximately 15.58% of the issued share capital of the Company as at the date of this circular and approximately 13.48% of the issued share capital of the Company as enlarged by the issue of the Interest Conversion Shares. The Interest Conversion Shares will be allotted and issued pursuant to the specific mandate to be sought at the SGM. Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Interest Conversion Shares. The Interest Conversion Arrangement is agreed between the Purchaser and the Vendor after an arm's length negotiation. As illustrated in the paragraph headed "Effects on the Shareholding Structure" below, the shareholding of the public Shareholders will be decreased from approximately 56.02% to 32.33% assuming conversion of the Convertible Bond in full and the allotment and issuance of the Interest Conversion Shares in full at the initial Conversion Price, representing a dilution of approximately 42.29%. The Directors (other than the independent non-executive Directors whose view will be provided in the circular) consider that the Interest Conversion Arrangement is in the interest of the Company and the Shareholders as a whole and the potential dilution effect to the shareholding of the public Shareholders is acceptable as the Company can save interest payment in cash if the holder of the Convertible Bond request the Company to pay interest to it by way of allotment and issuance of the Interest Conversion Shares. The Directors (other than the independent non-executive Directors whose view will be provided in the circular) also consider that it is fair and reasonable to have the Interest Conversion Price based on the Conversion Price, which is subject to adjustments in accordance with the provisions of the Convertible Bond, since (i) the initial Conversion Price is at a premium to the closing price per Share on the Last Trading Day, and (ii) the interest to be payable under the Convertible Bond is part of the terms of the Convertible Bond and accordingly it is logical that the conversion of the interest and the conversion of the principal are subject to the same price. The Interest Conversion Shares will rank pari passu in all respects with the existing Shares.

The Conversion Price of HK\$0.18 represents:

- (a) a premium of approximately 18.42% to the closing price of HK\$0.152 per Share as quoted on the Stock Exchange on 22 December 2014, being the Last Trading Day;
- (b) a premium of approximately 13.92% to the average closing price of HK\$0.158 per Share as quoted on the Stock Exchange for the last 5 consecutive trading days up to and including the Last Trading Day;
- (c) a premium of approximately 13.21% to the average closing price of HK\$0.159 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day; and

LETTER FROM THE BOARD

- (d) a discount of approximately 26.83% over the audited consolidated net assets value of the Group as at 31 December 2013 of approximately HK\$0.246 per Share.

The Conversion Price was determined by the Vendor and the Purchaser on an arm's length basis with reference to the current market price of the Shares. The Directors (other than the independent non-executive Directors whose view will be provided in the circular) consider that the Conversion Price is fair and reasonable.

4. PROMISSORY NOTES

Pursuant to the Sale and Purchase Agreement, the Company will issue the Promissory Notes to the Vendor or its nominee in satisfaction of part of the Consideration in accordance with the terms and conditions thereof.

The principal terms of the Promissory Notes are summarised as follows:

Issuer:	the Company
Principal Amount:	Promissory Note 1: HK\$80,000,000, subject to adjustments in accordance with the Sale and Purchase Agreement Promissory Note 2: HK\$20,000,000
Maturity:	On the date falling on the expiry of 3 calendar years from the date of issue of the respective Promissory Notes
Interest:	Each of the Promissory Notes shall bear interest at the rate of 9% per annum on the outstanding principal accrued daily on a 365 days basis and payable annually in arrears The interest rate of 9% per annum was determined by the Vendor, the Purchaser and the Company on an arm's length basis with reference to the interest rate of the Convertible Bond to be issued by the Company
Security:	Unsecured
Prepayment:	The Company is entitled to repay any outstanding principal amount of the Promissory Notes at any time prior to the maturity date
Transferability:	The Promissory Notes are freely transferable and assignable by their holders by way of deed to any party other than a connected person (as defined in the GEM Listing Rules) subject to prior notification to the Company

LETTER FROM THE BOARD

5. INFORMATION ON THE TARGET COMPANY

The Target Company is principally engaged in the sourcing and execution of investment opportunities for real estate development projects in the PRC. The Target Company is incorporated in Hong Kong with limited liability on 11 July 2013 and is beneficially wholly owned by the Vendor.

On 1 November 2013, the Target Company entered into a Lease Agreement with Lessor Company, pursuant to which the Target Company has secured a lease for using the Land with an aggregate area of approximately 368.33 mu (245,553.33 sq.m.), which are located close to Huanshan Road, Xiqiao Town, Nanhai District, Foshan City, Guangdong Province, the PRC (a well known tourist area), for 20 years since then. Except for the aggregate area of approximately 14.20 mu and 30.8163 mu which are currently occupied by a gas station (relocating to an area outside the Land) and covered by a river respectively, the Land is currently idle and ready for development. The Lease Agreement is renewable until 31 March 2051 automatically.

The following diagram shows the proximity between the Land and the current location of the Xiqiao National Arts Film Studio and hotel.



The Land is owned by four joint-equity economic cooperatives in Foshan, the PRC. Each of the joint-equity economic cooperatives entered into lease agreement with the Lessor Company, which the Land is leased to the Lessor Company commencing on 1 April 2011 to 31 March 2031, and renewable up to 31 March 2051. The annual rental is RMB8,000 (equivalent to approximately HK\$10,000) per mu subject to a 10% increment on the rental based on previous term for every 5 years.

The Lessor Company is an indirect wholly-owned subsidiary of the local government of Xiqiao Mountain, Foshan, the PRC, it is principally engaged in protection of nature resources environment and registered under Foshan Administration for Industry and Commerce.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Lessor Company, the joint-equity economic cooperatives and their respective ultimate beneficial owners are independent third parties not connected with the Company or connected persons of the Company.

LETTER FROM THE BOARD

A summary of the major terms of the Lease Agreement are as follows:–

1. Lease terms and Rental:

Lease Terms

Commencing on 1st November 2013 to 31st March 2031, and onwards up to 31st March 2051 subject to the condition of renewal as stipulated in the lease

Tenancy details

- a. approximately 323.31 mu of the Land are subject to annual rental of RMB12,000 (equivalent to approximately HK\$15,000) per mu;
- b. The total annual rental of approximately RMB 3,879,764 (equivalent to approximately HK\$4,849,705) subject to a 5% increment on the rental based on previous term for every five years;
- c. Commencement date of rent payment shall be on or before 1 March 2015; and
- d. One year rent free period from the commencement date of rent payment as stated above.

2. Management fee – RMB369,792 per annum (equivalent to approximately HK\$462,240), which will be increased at a fixed rate of 5% of the last rent every five years, payable annually in advance.
3. The Target Company undertakes to use the land for development of tourism and related entertainment projects only.
4. The Target Company shall invest no less than RMB300 million (equivalent to approximately HK\$375 million) for the project(s), failing which the lease agreement may be terminated and the Target Company will be liable to pay RMB4 million (equivalent to approximately HK\$5 million) as damages. If completion of the project(s) is delayed for 2 years, the rental will be increased to RMB15,000 (equivalent to approximately HK\$18,750) per Mu (in this case, the annual rental will increase from approximately RMB3,879,769 (equivalent to approximately HK\$4,849,711) to approximately RMB4,849,706 (equivalent to approximately HK\$6,062,133). If completion of the project(s) is delayed for 3 years, the Lessor may terminate the lease agreement and resume the land and the buildings thereon shall belong to the Lessor. There are no restrictions on the form, nature and timing of the investment. However, completion and commencement of operation of the project(s) shall be within 3 and 4 years respectively from the signing of the Lease Agreement. If the delay in completion or commencement of operation is due to the government policy which is unavoidable, the time limit will be extended accordingly.
5. Assignment and sub-lease of land are not allowed.

LETTER FROM THE BOARD

6. If the Target Company cooperates with other companies for development of the project(s), the project(s) have to be under the absolute control of the Target Company or Mr. Sin (or his legal-successor(s)).
7. The party who is in breach of the lease agreement resulting in early termination has to compensate the other party for damages.
8. The Target Company undertakes to ensure the environment protection in the Land and the area nearby during the development.
9. Details of No-Certificate Land and the lease terms:

Portion of the Property	Site Area	Tenancy details	Remarks
Land occupied by gas station (氣站土地)	14.2 mu (9,466.67 sq.m)	a). Annual rental of RMB12,000 per mu subject to a 5% increment on the rental based on previous term for every five years. b). One year rent free period after commencement date of rent payment.	This lease is enforceable upon Lessor Company has obtained the land use right certificate of this portion of the land and delivery to the Target Company.

10. A piece of Land covered by the river with a total area of approximately 30.8163 mu which located and comprised in the Land can be used by the Target Company free of charge during the lease period;

In order to avoid delay in the project and incur penalty as mentioned in point 4 above, the Company's project management team in PRC offices, will be responsible for monitoring and assessing the status of the projects and to ensure the projects can be completed without any delay. The functions of the project management team include planning, organizing and monitoring the projects of the Group. Apart from the project management team, the finance team and operation team of the Group in PRC offices would work closely with project management team to monitor the development process, perform budget control and assess the reasonableness of the expenses incurred. It would be strictly required that all the planning and budgeting should get sufficient approval from management before execution. Any delay of the project should have justifiable reason and raise immediate notification to top management.

Since there is no restriction on the form, nature and timing of the investments for the project(s), which allow the Company to have full control and flexibility on investing the planned investments to the project(s), the Board considered that the RMB4 million (equivalent to approximately HK\$5 million) as damages which the Target Company will be liable if the investment amount is less than RMB300 million (equivalent to approximately HK\$375 million) under the terms of the Lease Agreement is fair and reasonable and in the interest of the Company and the Shareholders.

LETTER FROM THE BOARD

The Company plans to satisfy the subsequent investments of no less than RMB300 million (equivalent to approximately HK\$375 million) in the project(s) as follows:

- approximately RMB150 million (equivalent to approximately HK\$188 million) by the proceeds from placing of bonds with maximum principal amount of RMB200 million (equivalent to approximately HK\$250 million) in aggregate as disclosed in the announcement of the Company dated 7 January 2015;
- approximately RMB100 million (equivalent to approximately HK\$125 million) by borrowings from an independent third party; and
- the remaining balance will be satisfied by the cash inflow to be generated from the existing Xiqiao National Arts Film Studio project.

The following is the audited financial information of the Target Company for the period from its incorporation date (11 July 2013) to 31 December 2013 and the nine months ended 30 September 2014:

	For the period from incorporation date to 31 December 2013 (HK\$)	Nine months ended 30 September 2014 (HK\$)
Turnover	–	–
Loss before taxation	9,900	9,250
Loss after taxation	9,900	9,250

According to the unaudited accounts, the unaudited net liabilities of the Target Company was approximately HK\$19,050 as at 31 December 2014.

The Target Company was set up by the Vendor in 11 July 2013 with an issued share capital of HK\$100. Based on the 100% interest of the Target Company attributable to the Sale Shares, the original cost of the Sale Shares for the Vendor, which represents the Vendor's subscription cost to the issued share capital of the Target Company, is HK\$100.

6. REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in film production and distribution, provision of artists management, advertising and promotion services, provision of studio, theme park and hotels. Since the acquisition of the entire issued share capital of HRL and EPL as announced on 9 July 2013, the Group has been actively devoting resources on the development of the Xiqiao National Arts Film Studio project and substantial progress has been made through the efforts of the Group. With the success in partial opening of the Xiqiao National Arts Film Shooting Studio and the well-facilitated National Arts Resort Hotel, collectively named as Xiqiao National Arts Film Studio project, as disclosed in the interim report of the Company for the period ended 30 June 2014, the Group considers that the return on investment from the Xiqiao National Arts Film Studio project will become more and more significant to the Group. In light of that, it is justified to strive for opportunities to further develop the regions nearby.

LETTER FROM THE BOARD

The Vendor is the producer of the movies series featuring “Ip Man” which has made a lot of contribution in promoting the image of Foshan, the PRC and the martial art “Wing Chun (詠春)”. After the successful distribution of the movies since 2010, Foshan city become an international famous tourists area and the number of tourists visiting Foshan increased since then. Also, the Vendor incurred significant expenses in organizing large international events promoting Wing Chun and Foshan in the past few years (including “The 3rd World Wing Chun Contest” in 2010, with more than 600 Wing Chun martial art masters from 12 countries joining the event and over 3000 people performed Wing Chun in Foshan; The 2010 International Wing Chun Invitational Tournament in late 2010 and “Ip Man Cup” - The International Wing Chun Invitational Tournament in 2012). In appreciation of the Vendor’s continual promotion and contribution to Foshan, and taking into account the Vendor’s extensive experience in the banking sector with project management, the local government of Xiqiao Mountain (西樵山), Foshan, the PRC after offering to lease on favourable terms a piece of land in about 1,016 Mu (including 180 Mu lake area) to the Vendor for development of a tourist attraction at the foot of the Xiqiao Mountain in 2010, further offer to lease to the Vendor on favourable terms the Land in approximately 368.33 Mu for further development of the tourist attraction in Xiqiao Mountain in November 2013. Save for the annual rental to be paid according to the Lease Agreement, the Vendor and the Target Company did not incur any cost for entering into the Lease Agreement. The terms of the Lease Agreement of the Land are set out in pages 20 to 21 of this circular.

The local government of Xiqiao Mountain offered to lease the Land to the Vendor in his own capacity on favourable terms in appreciation of his personal achievement as well as his contribution to Foshan City. The local government of Xiqiao Mountain is not willing to enter into the Lease Agreement with the Company directly as the Company is not wholly-owned by the Vendor. However, the Lease Agreement did not impose any restrictions on the change in control of the Target Company subsequently.

Since the Vendor is merely a non-executive director and the Company has not financed the Vendor in organizing the international events in promoting Wing Chun and Foshan, it is unfair to the Vendor to pass the benefit of his own investment to the Company without any consideration. The Directors therefore consider it fair and reasonable to the Company and the Shareholders as a whole for the Group to secure the lease agreement to the Land through the Acquisition, given that the Company is not able to enter into the Lease Agreement with the Lessor Company directly.

As an extension of Xiqiao National Arts Film Studio project, the Group is dedicated to infuse complexities in a series of development on the Land by way of (i) development of indoor film shooting studios; (ii) further development of film shooting base; (iii) development of commercial centre; and (iv) development and operation of hostel.

The studio and hotel in Xiqiao National Arts Film Studio project conducted partial opening in the second half of 2014. Currently, the studio are rented for film and television programme shooting in which stable income is generated. It is expected the demand of the studio in Xiqiao National Arts Film Studio project would increase as (i) the studio will be more popular after the distribution of the film and TV programme shot in the studio and (ii) the Company is actively coordinating various events in promoting the studio in the project. For the hotel in Xiqiao National Arts Film Studio project, the occupation rate is over 50% in normal days, and more than 90% during the festival days.

LETTER FROM THE BOARD

The existing Film Shooting Studio provide various outdoor shooting scene, whereas the further phase shooting studio to be developed on the Land would provide additional choice such as indoor shooting site, commercial centre, office for rental to cope with the additional shooting crew. With additional shooting site, it is expected that both sites would generate stable cash inflow in the coming years.

In addition, the Acquisition could set up an entry barrier to the potential competitors who target to build up hotel and hostel near the region of the existing Film Shooting Studio.

In light of the increasing demand in film and television productions, the high demand of film shooting scene would bring along extra production crew and hence, it is expected the demand of hotel accommodations and food and beverage facilities would be increase and extra hotel or hostel have to be constructed to cope with the continuing increase in demand of tourists.

7. EFFECTS ON THE SHAREHOLDING STRUCTURE

The following table summarises the shareholding structure of the Company as at the latest practicable date, and assuming the issuance of the Conversion Shares and the Interest Conversion Shares:

Name of Shareholder	As of the Latest Practicable Date		Assuming conversion of the Convertible Bond in full at the initial Conversion Price (Note 2)		Assuming allotment and issuance of the Interest Conversion Shares in full at the initial Conversion Price (Note 3)		Assuming conversion of the Convertible Bond in full and the allotment and issuance of the Interest Conversion Shares in full at the initial Conversion Price (Note 4)		Immediately after issue of the Conversion Shares upon the exercise of the Convertible Bond to the extent where the Vendor and parties acting in concert with him taken together will, directly or indirectly, control 30% or less of the voting rights of the Company (in an integral multiple amount of HK\$300,000)	
	No. of Shares	Approximate % to the issued Shares	No. of Shares	Approximate % to the enlarged issued Shares	No. of Shares	Approximate % to the enlarged issued Shares	No. of Shares	Approximate % to the enlarged issued Shares	No. of Shares	Approximate % to the enlarged issued Shares
The Vendor (Note 1)	683,473,000	23.66%	2,350,139,666	51.60%	1,133,473,000	33.95%	2,800,139,666	55.94%	908,472,910	29.18%
Ms Law (Note 1)	23,352,000	0.81%	23,352,000	0.51%	23,352,000	0.70%	23,352,000	0.47%	23,352,000	0.75%
Tse Young Lai	563,547,600	19.51%	563,547,600	12.37%	563,547,600	16.88%	563,547,600	11.26%	563,547,600	18.10%
Public Shareholders	1,618,016,883	56.02%	1,618,016,883	35.52%	1,618,016,883	48.47%	1,618,016,883	32.33%	1,618,016,883	51.97%
Total	2,888,389,483	100.00%	4,555,056,149	100.00%	3,338,389,483	100.00%	5,005,056,149	100.00%	3,113,389,393	100.00%

LETTER FROM THE BOARD

Notes

1. The Vendor and Ms. Law Po Yee, together beneficially owns 706,825,000 Shares and is a substantial shareholder as at the date of this circular. Ms. Law Po Yee, the spouse of the Vendor is deemed to be interested in all the Shares in which the Vendor is interested. Both the Vendor and Ms. Law Po Yee are directors of the Company.
2. The shareholding structure is shown for illustration purpose only. Pursuant to the terms of the Convertible Bond, no holder of the Convertible Bond shall exercise any Conversion Rights to the extent that immediately after such conversion (i) the holder of the Convertible Bond 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 Takeovers Code 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 Takeovers Code or (ii) there will not be sufficient public float of the Shares as required under the GEM Listing Rules.
3. The shareholding structure is shown for illustration purpose only. The holder of the Convertible Bond shall not request the Company to pay interest by way of allotment and issuance of new Shares to the extent that immediately after such allotment and issuance (i) the holder of the Convertible Bond 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 in such percentage as may from time to time be specified in the Takeovers Code being the level for triggering a mandatory general offer) or otherwise, such that a general offer shall be given in accordance with the requirement of the Takeovers Code or (ii) there will not be sufficient public float of the Shares as required under the GEM Listing Rules.
4. The shareholding structure is shown for illustration purpose only. The holder of the Convertible Bond is subject to the restrictions as mentioned in notes 2 and 3 above.

By virtue of the restrictions on conversion of the Convertible Bond, the issuance of the Convertible Bond and the Interest Conversion Arrangement will not result in a change of control of the Company.

8. FINANCIAL EFFECTS OF THE ACQUISITION

Assets

As set out in the interim report 2014 of the Group, the unaudited consolidated total assets of the Group as at 30 June 2014 amounted to approximately HK\$1,770 million. As set out in Appendix III to this circular, assuming Completion had taken place on 30 June 2014, the unaudited pro forma consolidated total assets of the Group would be approximately HK\$2,168 million.

Liabilities

As set out in the interim report 2014 of the Group, the unaudited consolidated total liabilities of the Group amounted to approximately HK\$1,132 million. As set out in Appendix III to this circular, assuming Completion had taken place on 30 June 2014, the unaudited pro forma consolidated total liabilities of the Group would be approximately HK\$1,520 million.

LETTER FROM THE BOARD

Earnings

Following the Completion, the Target Company will become a wholly owned subsidiary of the Company and the Group will be able to consolidate the results of the Target Company. The loss attributable to the owners of the Company for the year ended 31 December 2013 as extracted from the 2013 annual report of the Company was approximately HK\$24.2 million. According to the unaudited proforma income statement of the Enlarged Group as if the Acquisition had been completed on 1 January 2014, the proforma loss attributable to the owners of the Company would have been approximately HK\$25.20 million.

Gearing

The Group's gearing ratio on the basis of a ratio of the Group's total borrowings over total assets was approximately 43.2% as at 30 June 2014. According to the unaudited pro forma consolidated statement of financial position of the Enlarged Group as set out in Appendix III to this circular, the unaudited pro forma gearing ratio of the Enlarged Group would have been increased to approximately 48.8% as if the Acquisition had been completed on 30 June 2014.

9. FINANCIAL AND TRADING PROSPECTS

According to the statistics headed 2013 National Radio Film and Television Economic Index (“2013年全國廣播影視經濟指標”) published by China's State Administration of Radio, Film and Television on its website: <http://gdtj.chinasarft.gov.cn>, the box office receipts in Mainland China in 2013 reached RMB21.7 billion (equivalent to approximately HK\$27.1 billion), representing an increase of 27.51% from the previous year, indicating that the PRC film industry remained at a stage of rapid growth in 2013. This, combining with a series of favourable policies for the tourism and culture industry introduced by central government, will build a favourable business environment for the Group's film and entertainment business. The Group is fully confident in the film industry and will continue to foster its development.

As for tourism, according to a statistics published by Tourism Administration of Guangdong Province, the total tourism revenue in Guangdong province was RMB830.5 billion (equivalent to approximately HK\$1,038.1 billion) in 2013, which was the highest across the PRC and representing an increase of 12.4% from the previous year. The rank of Guangdong province in China in terms of total tourism revenue was again the first this year. With the official opening of Xiqiao National Arts Film Studio in the middle of this year, the Group believes that its new tourist substance and excellent ancillary facilities will become a bright point of the tourism industry in Guangdong province. The Group is confident that the revenue from operations such as filming base, hotels, tickets sales, cinema and wedding photography will bring satisfactory return to the Group.

LETTER FROM THE BOARD

10. GEM LISTING RULES IMPLICATIONS

As one or more of the relevant percentage ratios in respect of the Acquisition exceeds 25% but less than 100%, the transactions under the Sale and Purchase Agreement constitute a major acquisition for the Company under the GEM Listing Rules. The Vendor is a non-executive director, the Chairman and a substantial shareholder of the Company and is therefore a connected person. As such, the Sale and Purchase Agreement also constitutes a connected transaction for the Company under the GEM Listing Rules and is subject to the approval of the Independent Shareholders in the SGM.

11. THE SGM

The SGM will be convened for the purpose of, among other things, considering, and if thought fit, approving the Sale and Purchase Agreement and the transactions contemplated thereunder, including the issue of the Convertible Bond, the issue and allotment of the Conversion Shares, the issue and allotment of the Interest Conversion Shares and issue of the Promissory Notes. The Vendor and his associates, who held 706,825,000 Shares as at the Latest Practicable Date (representing approximately 24.47% interest in the total issued share capital of the Company), and any shareholder with a material interest in the Acquisition and his/her/its associates will abstain from voting in respect of the resolution(s) approving the Sale and Purchase Agreement and the transactions contemplated thereunder at the SGM as the Vendor has a material interest in the Sale and Purchase Agreement.

As the Vendor has a material interest in the Sale and Purchase Agreement, he and his associates, Ms. Law, had abstained from voting on the relevant resolutions of the Board. Besides, Ms. Sin Ho Yee, a daughter of the Vendor and an executive director of the Company, had also abstained from voting on the relevant resolutions of the Board.

A notice convening the SGM is set out on pages 118 to 120 of this circular for the purpose of considering and, if thought fit, passing the resolution set out therein.

A proxy form for use at the SGM is enclosed. Whether or not you are able to attend the SGM in person, please complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the Branch Registrar, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM. Completion and return of a proxy form will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

LETTER FROM THE BOARD

12. RECOMMENDATION

The Directors consider that the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder, are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve those matters.

13. ADDITIONAL INFORMATION

Your attention is also drawn to the information set out in the appendices to this circular.

For and on behalf of the Board
National Arts Entertainment and Culture Group Limited
Law Po Yee
Chief Executive Officer

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



National Arts

**NATIONAL ARTS ENTERTAINMENT AND
CULTURE GROUP LIMITED**

國藝娛樂文化集團有限公司*

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 8228)

23 March 2015

To the Independent Shareholders

Dear Sir and Madam

**MAJOR AND CONNECTED TRANSACTION
RELATING TO THE SALE AND PURCHASE OF
THE ENTIRE SHARE CAPITAL IN
LUX UNICORN LIMITED INVOLVING THE ISSUE OF
PROMISSORY NOTES AND CONVERTIBLE BOND**

We refer to the circular to the Shareholders dated 23 March 2015 (the “Circular”) of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

The Independent Board Committee has been formed to advise the Independent Shareholders as to whether, in our opinion, the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issue of the Convertible Bond, the issue of the Conversion Shares by the Company pursuant to the exercise of the conversion rights attached to the Convertible Bond, the issue of the Interest Conversion Shares under the Interest Conversion Arrangement and the issue of the Promissory Notes) are in the interests of the Company and its Shareholders as a whole and the terms of which are fair and reasonable so far as the Independent Shareholders are concerned. Beijing Securities has been appointed to advise the Independent Board Committee and the Independent Shareholders.

We wish to draw your attention to the “Letter from Beijing Securities” as set out on pages 31 to 60 of the Circular. We have considered the terms and conditions of the Sale and Purchase Agreement, the advice of Beijing Securities and the other factors contained in the “Letter from the Board” as set out on pages 7 to 28 of the Circular.

* For identification purpose only

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

In our opinion, so far as the Independent Shareholders are concerned, the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issue of the Convertible Bond, the issue of the Conversion Shares by the Company pursuant to the exercise of the conversion rights attached to the Convertible Bond, the issue of the Interest Conversion Shares under the Interest Conversion Arrangement and the issue of the Promissory Notes) set out in the Circular are fair and reasonable, on normal commercial terms and in the interests of the Company and its Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed to approve the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issue of the Convertible Bond, the issue of the Conversion Shares by the Company pursuant to the exercise of the conversion rights attached to the Convertible Bond, the issue of the Interest Conversion Shares under the Interest Conversion Arrangement and the issue of the Promissory Notes).

Yours faithfully,
For and on behalf of the
Independent Board Committee

Mr. Chan Tin Lup, Trevor
Independent non-executive Director

Mr. Chui Chi Yun, Robert
Independent non-executive Director

Prof. Wong Lung Tak, Patrick
Independent non-executive Director

Mr. Li Kit Chee
Independent non-executive Director

LETTER FROM BEIJING SECURITIES

Beijing Securities
Beijing Securities Limited
北京證券有限公司

BEIJING SECURITIES LIMITED

14th Floor, Shanghai Industrial Investment Building, 48 Hennessy Road, Wanchai, Hong Kong

23 March 2015

*To the Independent Board Committee and the Independent Shareholders of
National Arts Entertainment and Culture Group Limited*

Dear Sirs,

**MAJOR AND CONNECTED TRANSACTION
RELATING TO THE SALE AND PURCHASE OF THE ENTIRE SHARE CAPITAL
IN LUX UNICORN LIMITED INVOLVING THE ISSUE OF PROMISSORY NOTES
AND CONVERTIBLE BOND**

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, details of which are set out in the letter from the Board (“Letter from the Board”) contained in the circular of the Company dated 23 March 2015 (the “Circular”), of which this letter forms a part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 22 December 2014, the Purchaser, a direct wholly-owned subsidiary of the Company, and the Company entered into the Sale and Purchase Agreement with the Vendor, pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase, subject to fulfilment of the Conditions Precedent, the Sale Shares, representing 100% of the entire issued share capital of the Target Company and the Loan at the Consideration of HK\$400,000,000, subject to adjustments. The Consideration is to be satisfied (i) as to HK\$80,000,000, by the issuance of the Promissory Note 1 to the Vendor or its nominee on Completion; (ii) as to HK\$300,000,000, by the issuance of the Convertible Bond in the principal amount of HK\$300,000,000 to the Vendor or its nominee on Completion; and (iii) provided that the land use rights certificate in relation to the No-Certificate Land having been obtained to the satisfaction of the Purchaser, as to the balance of HK\$20,000,000 by the issuance of the Promissory Note 2 to the Vendor or its nominee on the date of confirmation by the Purchaser that such certificate having been obtained to its satisfaction. Further information on the adjustment mechanism of the Consideration is detailed in the sub-section headed “Adjustment of Consideration” of this letter below.

LETTER FROM BEIJING SECURITIES

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and the financial results of the Target Company will be consolidated into the Group.

As one or more of the relevant percentage ratios in respect of the Acquisition exceeds 25% but less than 100%, the transactions under the Sale and Purchase Agreement constitute a major transaction for the Company under the GEM Listing Rules. Furthermore, as the Vendor is a non-executive director and chairman and a substantial shareholder of the Company, he is therefore a connected person of the Company. As such, the Sale and Purchase Agreement also constitutes a connected transaction for the Company under the GEM Listing Rules and is subject to the approval of the Independent Shareholders in the SGM.

The Board currently comprises three executive Directors, two non-executive Director, and four independent non-executive Directors. The Independent Board Committee, which is currently comprising of all the independent non-executive Directors, namely Mr. Chan Tin Lup Trevor, Mr. Chui Chi Yun Robert, Prof. Wong Lung Tak Patrick and Mr. Li Kit Chee, has been established to advise the Independent Shareholders regarding the Acquisition. We have been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this respect, and such appointment has been approved by the Independent Board Committee.

Beijing Securities Limited is not connected with the directors, chief executive or substantial shareholders of the Company and its subsidiaries or the Underwriter or any of their respective associates and therefore is considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby Beijing Securities Limited will receive any fees or benefits from the Company and its subsidiaries or the directors, chief executive or substantial shareholders of the Company or the Underwriter or any of their respective associates.

Our role is to provide you with our independent opinion and recommendation as to (i) whether the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole; and (ii) how the Independent Shareholders should vote in respect of the relevant resolution(s) to approve the Sale and Purchase Agreement and the transactions contemplated thereunder at the SGM.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Directors, the Company and its management.

LETTER FROM BEIJING SECURITIES

We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its management and/or the Directors, which have been provided to us. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the Directors and the management of the Group nor have we conducted any form of in-depth investigation into the business and affairs or the future prospects of the Group.

PRINCIPAL FACTORS TAKEN INTO CONSIDERATION

In formulating our opinion in respect of the fairness and reasonableness of the Sale and Purchase Agreement and the transactions contemplated thereunder to the Independent Board Committee and the Independent Shareholders, we have considered the following principal factors and reasons:

1. Background, reasons and benefits of the Acquisition

1.1 Background information of the Group

The Group is principally engaged in film production and distribution, provision of artists management, advertising and promotion services, provision of studio, theme park and hotels.

LETTER FROM BEIJING SECURITIES

Set out below is a summary of the financial information of the Group for the two years ended 31 December 2013 and for the six months ended 30 June 2014 as extracted from its annual report for the year ended 31 December 2013 (the “Annual Report”) and its interim report for the six months ended 30 June 2014 (the “Interim Report”).

	For the six months ended 30 June 2014 HK\$'000	For the year ended 31 December 2013 HK\$'000	2012 HK\$'000
Turnover	3,843	19,094	6,789
(Loss) for the period/year	(61,532)	(24,225)	(2,041)

	As at 30 June 2014 HK\$'000	As at 31 December 2013 HK\$'000	2012 HK\$'000
Total assets	1,770,431	1,572,053	1,007,741
Total liabilities	1,132,353	862,635	213,926
Net assets	638,078	709,418	793,815

For the year ended 31 December 2013, the turnover of the Group was approximately HK\$19.1 million which represented an increase of more than 181% from the prior year. The increase in turnover was mainly attributable to the film production and licensing income from “Ip Man – The Final Fight”, which was recorded during the year ended 31 December 2013. However, the Group recorded a net loss of approximately HK\$24.2 million for the year ended 31 December 2013 as compared to a net loss of approximately HK\$2.0 million for the prior year. The increase of net loss was mainly attributable to the decrease of other income by approximately HK\$35.7 million as there was no construction management fee income recorded in the year ended 31 December 2013, increase in cost of film production by approximately HK\$14.0 million and increase in finance costs of approximately HK\$11.1 million mainly due to interest charged on additional borrowings raised and on the issuance of bonds and convertible bonds.

For the six months ended 30 June 2014, the turnover of the Group was approximately HK\$3.8 million which represented an increase of approximately 28.4% from the prior period. The increase in turnover was mainly attributable to the increase of turnover from the film and artist management business as well as from the business of film studio in the PRC. However, the Group recorded a net loss of approximately HK\$61.5 million for the six months ended 30 June 2014 as compared to a net loss of approximately HK\$14.1 million for the prior period. The increase of net loss was mainly attributable to the increase in staff costs by approximately HK\$3.7 million as the hotel in the PRC is about to commence operation from June 2014 and increase in finance costs of approximately HK\$31.5 million mainly due to interest charged on additional convertible bonds which were issued during 2013.

LETTER FROM BEIJING SECURITIES

As at 30 June 2014, the Company had total assets, total liabilities and net assets of approximately HK\$1,770.4 million, HK\$1,132.4 million and HK\$638.1 million respectively. Furthermore, the ratio of the Group's total borrowings of approximately HK\$765.0 million over total assets of approximately HK\$1,770.4 million was approximately 43.2% as at 30 June 2014.

Looking forward, the Group will continue to focus on its cultural and entertainment businesses. Since the acquisition of HRL and EPL as announced on 9 July 2013, the Group has been concentrating its resources on the development of the Xiqiao National Arts Film Studio project (the "Xiqiao National Arts Film Studio Project"). The Xiqiao National Arts Film Studio Project is located in Nanhai District, Foshan City, Guangdong Province, and near Xiqiao Mountain, a well-known tourist area. It has a total developed land area of 444,000 square metres and is an unique studio which incorporates tourism and recreational facilities such as film shooting area, theme park, hotels, performing arts complex. Based on our discussion with the Company on the latest development of Xiqiao National Arts Film Studio Project, the Group has successfully conducted partial opening of the Xiqiao National Arts Shooting Studio (the "Studio") and the National Arts Resort Hotel (the "Hotel") as part of the development of the Xiqiao National Arts Film Studio Project in 2014. The Studio is rented for film and television programme shooting where income has begun to be generated. It is expected that the demand for the use of the Studio would be increased as the Company has been actively coordinating various events to promote the Studio and this trend may continue particularly when its brand name becomes better known after it begins to distribute various film and TV programmes. As for the Hotel, we were advised by the Company that the occupation rate during non-peak period is over 50% and during peak period or festivals, it will be more than 90%. In light of the above, we consider that it is a fair expectation that the progress of the Xiqiao National Arts Film Studio Project has been within its plans and it will begin to have revenue generating to the Group.

1.2 Background information of the Target Company

The Target Company is principally engaged in the sourcing and execution of investment opportunities for real estate development projects in the PRC. The Target Company is incorporated in Hong Kong with limited liability on 11 July 2013 and is wholly owned by the Vendor.

On 1 November 2013, the Target Company entered into a Lease Agreement with the Lessor Company pursuant to which the Target Company has secured a lease for using the Land with an aggregate area of approximately 368.33 mu (245,553.33 sq.m.), which are located close to Huanshan Road, Xiqiao Town, Nanhai District, Foshan City, Guangdong Province, the PRC, for the future 20 years since then. The location of the Land is a well known tourist area. The Lease Agreement is renewable until 31 March 2051 automatically.

LETTER FROM BEIJING SECURITIES

As advised by the Company, we understand that the Land is owned by four cooperative societies in the Foshan City. Each of the respective cooperative societies entered into lease agreements with the Lessor Company to which the Land is leased. The respective leases has lease terms commenced on 1 April 2011 to 31 March 2031, and renewable up to 31 March 2051. The annual rental payable under the leases are RMB8,000 per mu subject to a 10% increment on the rental based on its previous term for every 5 years. The Lessor Company is an indirect wholly-owned subsidiary of the local government of Xiqiao Mountain (西樵山) of the Foshan City and is principally engaged in the protection of nature resources environment and is registered under Foshan Administration For Industry and Commerce. Furthermore, as discussed with the Company, the Lessor Company, the cooperative societies and the ultimate beneficial owner of their respective controlling shareholders are independent third parties not connected with the Company or connected persons of the Company.

Set out below is a summary of the financial information of the Target Company from its incorporation date to 31 December 2013 and for the nine months ended 30 September 2014 as extracted from Appendix II of the Circular.

	For the nine months ended 30 September 2014 HK\$'000	From the incorporation date to 31 December 2013 HK\$'000
Revenue	—	—
Loss for the period	(9)	(10)
	As at 30 September 2014 HK\$'000	As at 31 December 2013 HK\$'000
Net liabilities	(19)	(10)

Shareholders are advised to refer to Appendix II of the Circular and the Letter from the Board for further details of the financial information of the Target Company and the Lease Agreement respectively.

LETTER FROM BEIJING SECURITIES

1.3 Reasons for and benefits of the Acquisition

As advised by the Company, the Vendor has accumulated over 20 years of experience in the banking industry and also has various business interests including movie making and the related activities thereto. The Vendor, who is an enthusiast in the martial art and as one of the producers of the movie series featuring “Ip Man”, is instrumental in promoting and elevating the image of Foshan, the PRC, a place in which Wing Chun (詠春) has been a popular marital art. After the “Ip Man” movies were successfully distributed in 2010, Foshan City has become an internationally famous tourists area which has attracted an increased number of tourists. Besides, the Vendor in his own personal capacity has also incurred significant expenses in organizing large international events promoting Foshan City and Wing Chun in the past few years. As advised by the Company, these events include “The 3rd World Wing Chun Contest” in 2010, where more than 600 Wing Chun martial art masters from 12 countries and over 3,000 Wing Chun performers participated in the event; The 2010 International Wing Chun Invitational Tournament in late 2010; and “Ip Man Cup” - The International Wing Chun Invitational Tournament in 2012. In appreciation of the Vendor’s continual promotion and contribution to Foshan City as well as his familiarity with the various project management in the vicinity, the local government of Xiqiao Mountain of the Foshan City besides offered to lease to the Vendor a piece of land of about 1,016 mu (including 180 mu lake area) in 2010 for development into a tourist attraction at the foot of the Xiqiao Mountain, also further offered to lease to the Vendor the Land of approximately 368.33 mu in November 2013 for further development of the tourist attraction in Xiqiao Mountain of the Foshan City.

We were also advised by the Company that the local government of Xiqiao Mountain of the Foshan City offered to lease the Land to the Vendor in his personal capacity with terms as set out in the Lease Agreement was in appreciation of his personal achievement and his efforts in managing various tourism projects for the Foshan City as that has contributed to the Foshan City. As the Vendor is a non-executive director of the Company and the Company did not provide any financial resources to the Vendor in organizing the various international events in promoting Foshan City and Wing Chun, it is therefore fair and reasonable that the Group, after arm’s length negotiation with the Vendor, is to acquire the Land from the Vendor at a premium, which represents the above mentioned values provided by the Vendor.

Furthermore, as stated in this letter above, since the acquisition of HRL and EPL, the Group has been concentrating its resources on the development of the Xiqiao National Arts Film Studio Project. In 2014, the Group has already successfully conducted partial opening of the Studio and the Hotel and therefore the Group expects that the revenue from the operation of the Xiqiao National Arts Film Studio Project will begin to contribute to the Group. Based on our discussion with the Company, since the partial opening of the Xiqiao National Arts Film Studio Project, the Xiqiao National Arts Film Studio Project has generated a turnover of approximately RMB7 million in the last quarter of 2014. As such, the Group considers that it is an appropriate timing to strive for opportunities to further develop the area surrounding the Xiqiao National Arts Film Studio Project.

LETTER FROM BEIJING SECURITIES

As the Land is located in Xiqiao Town, Nanhai District, Foshan City and where the Xiqiao National Arts Film Studio Project is located as well, the Land will enable the Group to further extend the Xiqiao National Arts Film Studio Project particularly as the Land is planned to undergo a series of development by way of (i) development of indoor film shooting studios; (ii) further development of film shooting base; (iii) development of commercial centre; and (iv) development and operation of hostel.

As advised by the Company, whilst the Group's existing film shooting studio in the Foshan City provides various outdoor shooting scenes for rental, the additional shooting sites to be developed on the Land would provide further capacity and capabilities such as indoor shooting sites, commercial centre, and rental of office to cope with the increased number of shooting crews. With the additional shooting site to be developed on the Land and given that the Land is in close proximity with the current location of the Studio and the Hotel as illustrated in the section headed "Information on the Target Company" in the Letter from the Board which would enhanced the Group's film shooting capability (i.e., addition of indoor shooting sites), it is expected that it will provide synergy to the Group's existing film shooting studio and could further enhance the Group's film shooting studio.

In addition, as discussed with the Company, in anticipation of the increasing demand in film and television productions, it is expected that there will be more production crews to work on sites and which will further increase the demand in hotel accommodations as well as the food and beverage services. Therefore, the development of the commercial centre and hostel on the Land is expected to be able to satisfy and cope with the increasing number of production crews and tourists expected to visit in the region and which will also create an entry barrier to potential competitors who plan to build hotel and hostel in the nearby area of the Xiqiao National Arts Film Studio Project. In order to make the abovementioned developments on the Land, as stipulated in the Lease Agreement, the Target Company shall also be required to invest no less than RMB300 million thereto for this purposes and failing which the Lease Agreement may be terminated and the Target Company will be liable to pay RMB4 million as damages. In the event that completion of the projects to be developed on the Land is delayed for 2 years from the signing of the Lease Agreement, the rental will be increased to RMB15,000 per Mu (the annual rental will be increased from approximately RMB3,879,769 to approximately RMB4,849,706). In the event that completion of the projects to be developed on the Land is delayed for 3 years from the signing of the Lease Agreement, the Lessor may terminate the Lease Agreement and resume the Land and the buildings thereon shall belong to the Lessor. However, there are no restrictions on the form, nature and timing of the investment and completion and commencement of operation of the projects to be developed on the Land which is expected to be within 3 and 4 years respectively from the signing of the Lease Agreement. If the delay in completion or commencement of operation is due to the change in government policy which is unavoidable, the time limit will be extended accordingly.

LETTER FROM BEIJING SECURITIES

As advised by the Company, in order to avoid delay of the projects to be developed on the Land and/or incur the penalties as described above, the Company has assigned its project management team in the PRC offices to be responsible for the monitoring and assessing the status of the projects and to ensure that the projects would be completed without any delay. The functions of the project management team include planning, organizing and monitoring the projects of the Group. Apart from the project management team, the finance team and the operation team of the Group in the PRC offices would also work closely with the project management team to monitor the development process, perform budget control and assess the reasonableness of the expenses incurred. It would be strictly required that all the planning and budgeting should get approval from the top management before execution. Any delay of the projects should have justifiable reason and should be notified to the top management of the Group immediately. In light of the monitoring programme the Company has setup to oversee the projects to be developed on the Land, we are satisfied that the Company shall be able to avoid delay of the projects and/or incur the penalties as stipulated in the Lease Agreement.

Furthermore, as advised by the Company, the Company plans to satisfy the RMB300 million investment requirement as follows: (i) approximately RMB150 million to be funded by the proceeds from placing of bonds with maximum principal amount of HK\$200 million in aggregate as disclosed in the announcement of the Company dated 7 January 2015; (ii) approximately RMB100 million to be by borrowings from an independent third party; and (iii) the remaining balance of approximately RMB50 million will be satisfied by the cash inflow to be generated from the existing Xiqiao National Arts Film Studio Project. As discussed with the Company, it is expected that there is a high likelihood to achieve the fund raising plan. Given that the Company has a fund raising plan to secure the majority of the RMB300 million investment requirement and a part of which has been progressing, we are satisfied that the Company shall have the ability to meet the RMB300 million investment requirement.

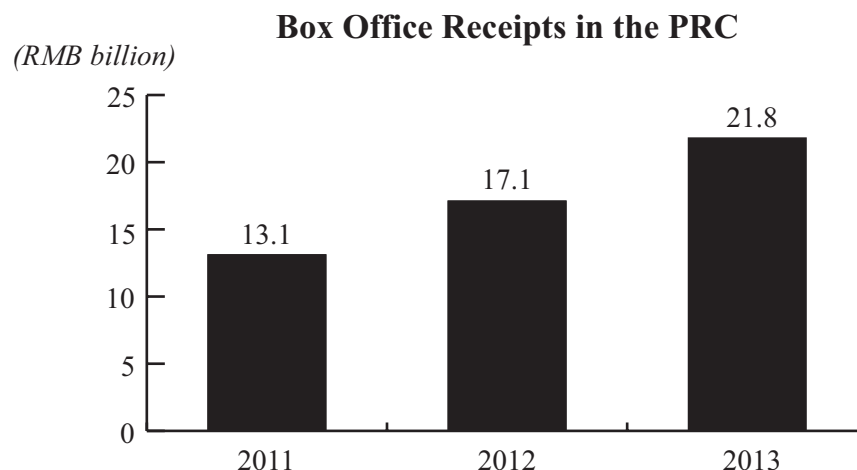
As set out in the Letter from the Board, if the Target Company cooperates with other companies for development of projects on the Land, the projects to be developed thereon would have to be under the absolute control of the Target Company and/or Mr. Sin (or his legal-successor(s)). As the Target Company will take control of the projects to be developed on the Land and the Company (after Acquisition) has the option to select the project development partners, we are of the view that this arrangement would give the Company effective control on the costs and time to be incurred on and the quality of the projects to be developed. Also, as Mr. Sin has extensive experience in the banking sector with project management, his knowledge in this respect is expected to add substantial value to the Company. In light of the above, we are of the view that such arrangement is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

LETTER FROM BEIJING SECURITIES

In the light of the above and in particular that (i) the Group is focused on the cultural and entertainment businesses; (ii) the Xiqiao National Arts Film Studio Project is one of the Group's key businesses and the acquisition of the Target Company will allow the Company to develop the Land, which is in close proximity with the current location of the Studio and the Hotel; and to further expand the Xiqiao National Arts Film Studio Project; (iii) the development of additional film shooting base is expected to be able to compliment the Group's existing film shooting studio in the Foshan City and which is expected to be able to attract a greater number of film producers to use the Group's film shooting studios; and (iv) the addition of a hostel and other commercial facilities will be able to provide more accommodation to accommodate the expected increase in the number of visitors to Xiqiao Mountain of the Foshan City and will also serve as a barrier of entry to preempt other competitors from building similar hostel and commercial facilities in the surrounding area, we considered that the Company's development plan on the Land is in the interests of the Company and the Shareholders as a whole.

Upon Completion, the Target Company shall become a wholly-owned subsidiary of the Company and it is also expected that the Land and its development will enhance the film production capacity of the Group and the diversity of businesses in Xiqiao region.

In assessing the merits of the investment, we have studied the statistics in relation to the box office receipts of the PRC and total tourism revenue in the Guangdong Province. According to the State Administration of Press, Publication, Radio, Film and Television, the box office receipts in the PRC had grown from approximately RMB13.1 billion in 2011 to approximately RMB21.8 billion in 2013, representing a compound annual growth rate ("CAGR") of approximately 28.8%. The following chart illustrates the growth of the box office receipts in the PRC from 2011 to 2013:



LETTER FROM BEIJING SECURITIES

Source: State Administration of Press, Publication, Radio, Film and Television as extracted from news articles from (i) People.cn (人民網) titled “2013 total box office receipts in the PRC reached RMB21.7 billion” (2013年全國電影總票房217億) dated 4 January 2014, hyperlink: <http://media.people.com.cn/n/2014/0104/c40606-24023661.html>; (ii) Xinhua Net (新華網) titled “2012 total box office receipts in the PRC exceeded RMB17.0 billion” (2012年全國電影票房超170億) dated 10 January 2013, hyperlink: http://news.xinhuanet.com/politics/2013-01/10/c_114313133.htm; and (iii) Xinhua Net (新華網) titled “2011 box office receipts in the PRC exceeded RMB13.0 billion” (2011年全國電影票房超130億) dated 9 January 2012, hyperlink: http://news.xinhuanet.com/fortune/2012-01/09/c_111403697.htm

Regarding the total tourism revenue in the Guangdong Province, according to statistics published by Tourism Administration of Guangdong Province, the total tourism revenue in Guangdong Province had grown from approximately RMB644.3 billion in 2011 to approximately RMB830.5 billion in 2013, representing a CAGR of approximately 13.5%. The following chart illustrates the growth of the total tourism revenue in the Guangdong Province from 2011 to 2013:



Source: Tourism Administration of Guangdong Province as extracted from news articles from (i) People.cn (人民網) titled “Ranking of total tourism revenue in each province in the PRC in 2013” (2013年全國各省份旅遊總收入排行榜出爐) dated 23 January 2014, hyperlink: <http://travel.people.com.cn/n/2014/0123/c41570-24205979.html>; (ii) Sina News (新浪網) titled “Ranking of total tourism revenue in each province in the PRC in 2012” (2012年全國各省份旅遊總收入排行榜出爐) dated 1 February 2013, hyperlink: <http://hunan.sina.com.cn/news/s/2013-02-01/143537316.html>; and (iii) People.cn (人民網) titled “Guangdong Province International Tourism Expo to be held in September 2012” (2012年(廣東)國際旅遊產業博覽會9月舉行) dated 14 March 2012, hyperlink: <http://politics.people.com.cn/BIG5/70731/17385390.html>

LETTER FROM BEIJING SECURITIES

Based on the foregoing, having considered that (i) the film industry in the PRC as represented by the growth of the box office receipts of the PRC as stated above is sound; (ii) the tourism industry in the Guangdong Province is promising as represented by the growth of the total tourism revenue in the Guangdong Province as illustrated above; (iii) the successful partial opening of the Xiqiao National Arts Film Studio Project in 2014 and the further opportunities to develop the area surrounding the Xiqiao National Arts Film Studio Project; (iv) the Land and its development will enhance the film production capacity of the Group and the diversity of businesses in Xiqiao region; and (v) the Acquisition is aligned with the business strategy of the Company, we are of the view that the Acquisition is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

2. The Sale and Purchase Agreement

Date: 22 December 2014

Vendor: Mr. Sin Kwok Lam

Purchaser: Elegant Motion Enterprises Limited (雅動企業有限公司),
a direct wholly-owned subsidiary of the Company

Company: National Arts Entertainment and Culture Group Limited

Assets to be acquired

Pursuant to the Sale and Purchase Agreement, the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase, subject to fulfilment of the Conditions Precedent, the Sale Shares, representing the entire issued share capital of the Target Company and the Loan. Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and the financial results of the Target Company will be consolidated into the Group.

Consideration

The Consideration was determined after arm's length negotiations between the parties to the Sale and Purchase Agreement with reference to (i) a preliminary assessment on the valuation of the Rental Saving during the land lease term from 1 November 2013 to 31 March 2051 estimated by an independent valuer, RHL Appraisal Limited (the "Valuer"), of RMB318,000,000 (equivalent to approximately HK\$397,500,000); and (ii) the recent development of the film shooting base and the tourism infrastructure of Xiqiao National Arts Film Studio Project surrounding the Land.

LETTER FROM BEIJING SECURITIES

The Consideration for the Acquisition shall be HK\$400,000,000, subject to adjustments in accordance with the Sale and Purchase Agreement set out in the next section. The Consideration shall be settled in the following manner in accordance with the terms of the Sale and Purchase Agreement:

- (a) as to HK\$80,000,000, by the issuance of the Promissory Note 1 to the Vendor or its nominee on Completion;
- (b) as to HK\$300,000,000, by the issuance of the Convertible Bond in the principal amount of HK\$300,000,000 to the Vendor or its nominee on Completion; and
- (c) provided that the land use rights certificate in relation to the No-Certificate Land having been obtained to the satisfaction of the Purchaser, as to the balance of HK\$20,000,000, by the issuance of the Promissory Note 2 to the Vendor or its nominee on the date of confirmation by the Purchaser that such certificate having been obtained to its satisfaction.

Adjustment of Consideration

In the event that the final valuation of the Rental Saving in respect of the Land to be confirmed in the valuation report is less than RMB318,000,000 (“Guaranteed Value”), the Consideration shall be adjusted by reducing therefrom an amount equal to the difference between the Guaranteed Value and the Rental Saving. Adjustments to the Consideration shall be made by way of reducing the principal amount of the Promissory Note 1. The Guaranteed Value was determined by reference to the preliminarily assessment on the valuation of the Rental Saving of RMB318,000,000 with respect to the lease period of the Land from 1 November 2013 to 31 March 2051 as estimated by the Valuer. Given that when entering the Sale and Purchase Agreement, the Consideration was made with reference to the Valuer’s preliminarily assessment on the valuation of the Rental Saving being not less than RMB318,000,000, therefore, if the Valuer’s final valuation of the Rental Saving represents a shortfall to such preliminarily assessment, there shall be adjustments. In this respect, we are of the view that it is appropriate for the Consideration to be adjusted proportionally to reflect for such shortfall and we are of the view that the Guarantee Value being set at RMB318,000,000 is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

As at the Latest Practicable Date, the final valuation of the Rental Saving as determined by the Valuer is not less than the Guaranteed Value and therefore there is no adjustment to the Consideration in terms of the principal amount of Promissory Note 1 is required.

LETTER FROM BEIJING SECURITIES

In the event that the land use rights certificate in relation to the use of the No-Certificate Land have not been obtained on or before 31 December 2015, the Consideration shall be adjusted by reducing therefrom an amount of HK\$20,000,000, and in such event, Promissory Note 2 shall not be required to be issued. The amount of the Promissory Note 2 was determined with reference to the land area of the No-Certificate Land and the Consideration on a pro-rata basis. As the consideration for the No-Certificate Land was determined based on the Consideration on a pro-rata basis and which is less than the principle amount of the Promissory Note 2 of HK\$20,000,000, we are of the view that setting aside the Promissory Note 2 in the event that if the land use rights certificate in relation to the use of the No-Certificate Land is not able to be obtained on or before 31 December 2015 is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

Basis for Consideration

A valuation report prepared by the Valuer of the property interests held by the Target Company as at 16 March 2015 (the “**Valuation Report**”) is set out in Appendix IV. According to the Valuation Report, the Rental Saving of the Land was valued at approximately RMB318,000,000 (equivalent to approximately HK\$397,500,000 (the “Valuation”).

For our due diligence of the Valuation, we have discussed with the Valuer the methodology, basis and assumptions for the Valuation and raised questions on areas which we require further explanation. As per our discussion with the Valuer, the Rental Saving is the aggregate amount of annual rentals saved during the lease period and is calculated as the difference between the annual rentals to be paid for the Land in the existing market and the annual payments to be made by the Target Company under the Lease Agreement and such future annual rentals saved are discounted at an appropriate discount rate to derive a present value of the Rental Saving. In deriving the valuation of the Rental Saving, the following assumptions are adopted: (i) the annual rentals to be paid for the Land in the existing market is based on the Land of approximately 368.33 mu (equivalent to approximately 215,542 square meter) with a plot ratio of 0.8 and an accommodation value of approximately RMB2,100 per square meter and a market yield of 8%. Accommodation value is defined as the capital value of the Land divided by the total permitted gross floor area to be developed on the Land and the market yield is defined by dividing an annual rental income of the Land by the capital value of the Land. As discussed with the Valuer, in adopting the plot ratio of 0.8 and the accommodation value of RMB2,100 per square meter, the Valuer has conducted research on land comparables nearby and made reference to them. We have reviewed such land comparables and noted that they are land transactions with land use of culture and entertainment and are located in similar region to the Land. We considered that the plot ratio of 0.8 is reasonable as the plot ratio of the land comparables is between 1.2 to 1.5 whilst the accommodation value of RMB2,100 per square meter adopted is based on the accommodation value of the land comparables with adjustment to take into account

LETTER FROM BEIJING SECURITIES

of the wider use of the Land for hostel and other commercial use. As discussed with the Valuer, we also considered that the market yield of 8% adopted is reasonable as it is based on the current property yield of commercial property market in Guangzhou with adjustment to reflect the higher operational risk of the film shooting studio to be developed on the Land. Taking the above assumptions into account, the market rent is assessed at approximately RMB89,600 per mu in the first year. As the Valuer's assessment of the Rental Saving is calculated is based on a site area of approximately 337.5137 mu which excludes a land covered by the river with a site area of 30.8163 mu, the annual current market rent as determined by the Valuer is approximately RMB30,240,000; (ii) annual rentals to be paid for the Land in the existing market will have the same percentage of increment as the percentage of increment of actual rentals stated in the Lease Agreements which we considered appropriate; (iii) the Lease Agreements with a term from 1 November 2013 to 31 March 2031 and automatically renewed for another 20 years; and (iv) a capitalization rate of 8.1% being applied to discount the rental saving calculated in each year during the term of the Lease Agreements which we considered reasonable as this is made with reference to the property yields of property transactions in the same locality and cross reference with the cost of capital of companies of similar nature. Based on our review of the assumptions adopted by the Valuer as mentioned above, we considered the assumptions adopted are fair and reasonable.

Furthermore, we also noted that the valuation methodology adopted by the Valuer has been adopted by other companies listed on the Stock Exchange such as C.P. Lotus Corporation (stock code: 121) for its acquisition of its subsidiaries in 2008 and 2012 respectively. The valuation methodology used in Rental Saving is similar to that used in the acquisition transaction of C.P. Lotus Corporation, where the amount of the fair value of certain operating lease agreements (prepared by independent third party valuers) was determined based on the comparison of the market rental rates at the date of the acquisition and the estimated present value of payments due under the lease contracts entered into by the acquired subsidiaries. In addition, we noted that the Valuation was prepared in compliance with Chapter 8 to the Rules Governing the Listing of Securities on the Growth Enterprise Market issued by The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards 2012 Edition. In the light of the above, we are of the view the valuation methodology adopted by the Valuer is appropriate.

Furthermore, we have enquired the Valuer as to its qualifications, expertise and independence. The Valuer is principally engaged in the provision of valuation and technical advisory services in Hong Kong. The Valuer has been engaged as an independent valuer by a number of Hong Kong listed companies and/or companies seeking for a listing in Hong Kong in respect of initial public offerings, acquisitions and/or annual audits valuation assignments. Therefore, we are of the view that the Valuer has substantial experience in performing valuation work and is qualified to provide the valuation on the Rental Saving of the Land held by the Target Company. We have also reviewed the Valuer's terms of engagement (including its scope of work). We were not aware of any irregularities during our discussion with the Valuer or in our review of the work.

LETTER FROM BEIJING SECURITIES

Having considered (i) the independence, qualification and experience of the Valuer as stated above; and (ii) the application of the valuation methods on the Rental Saving of the Land held by the Target Company is appropriate, we consider the Valuation is a fair reference for Independent Shareholders to assess the fairness and reasonableness of the Consideration.

As stated above, the Consideration for the Acquisition shall be HK\$400,000,000, subject to adjustments. The Valuation of RMB318,000,000, which is approximately HK\$397,500,000, and together with a small net liabilities of the Target Company of approximately HK\$19,000 as at 30 September 2014, is a close approximate to the Consideration. As such, we consider that the Consideration has been set fairly by reference to the Valuation. In the light of the above, we consider that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

3. Convertible Bond

As set out in this letter above, HK\$300,000,000 will be satisfied by the issuance of the Convertible Bond.

3.1 Principal terms of the Convertible Bond

Set out below is a summary of the principal terms of the Convertible Bond:

Principle amount:	HK\$300,000,000.
Maturity:	The date falling on the day being the third anniversary of the issue date of the Convertible Bond or if that is not a Business Day, the first Business Day thereafter.
Interest:	9% per annum, accrued daily on a 365 days basis and payable annually in arrear.

The bondholder shall be entitled to request the Company to pay interest to it under the provisions of the Convertible Bond by way of allotment and issuance of Interest Conversion Shares at the due day of the interest payment in lieu of payment by cash by giving not less than seven (7) Business Days' written notice prior to the due date for payment of interest.

LETTER FROM BEIJING SECURITIES

The number of such Shares to be allotted and issued shall equal to the amount of the interest due to be paid to the bondholder divided by the Conversion Price per Share on the due day of interest payment subject to adjustments as described in the provisions of the Convertible Bond provided that the bondholder shall not request the Company to pay interest by way of allotment and issuance of Interest Conversion Shares to the extent that immediately after such allotment and issuance (i) the bondholder 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 in such percentage as may from time to time be specified in the Takeovers Code being the level for triggering a mandatory general offer) or otherwise, such that a general offer shall be given in accordance with the requirement of the Takeovers Code or where applicable, waiver from the shareholders of the Company has been obtained in accordance with the Takeovers Code or (ii) there will not be sufficient public float of the Shares as required under the GEM Listing Rules, unless prior approval or waiver has been obtained from the Stock Exchange for such purposes and where any conditions to which such approval or waiver is subject are duly complied with.

- Conversion Price: The initial conversion price is HK\$0.18 per Conversion Share. The Conversion Price is subject to certain adjustments as set out in the Letter from the Board
- Conversion Rights: The holder of the Convertible Bond shall have the right to convert the whole or any part (in minimum amount of HK\$300,000 or an integral multiple thereof) of the outstanding principal amount of the Convertible Bond into Shares during the conversion period at the Conversion Price provided that no holder of the Convertible Bond shall exercise any Conversion Rights to the extent that immediately after such conversion (i) the holder of the Convertible Bond 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

LETTER FROM BEIJING SECURITIES

from time to time be specified in the Takeovers Code 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 Takeovers Code or (ii) there will not be sufficient public float of the Shares as required under the GEM Listing Rules.

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

Redemption: The Company may at any time prior to the maturity date of the Convertible Bond redeem the Convertible Bond by giving not less than 10 Business Days' notice (in whole or in part) (in minimum amount of HK\$300,000 or an integral multiple thereof) at 100% of the principal amount of such Convertible Bond thereof plus interest accrued thereon up to the actual date of redemption. Subject to the conditions in the instrument constituting the Convertible Bond, the holder of the Convertible Bond shall not have the right to request the Company to redeem the Convertible Bond prior to the maturity date of the Convertible Bond.

Further details of the terms of the Convertible Bond are set out in the Letter from the Board.

3.2 *Convertible Price*

The initial Conversion Price is set at HK\$0.18 per Conversion Share, subject to certain adjustments as set out in the Letter from the Board. The Conversion Price is arrived at after arm's length negotiation between the Company and the Vendor with reference to the market price of the Shares under the prevailing market conditions.

Price comparison of the Conversion Price

The Conversion Price represents:

- (i) a premium of approximately 18.42% based on the closing price of HK\$0.152 per Share as quoted on the Stock Exchange on 22 December 2014, being the Last Trading Day;

LETTER FROM BEIJING SECURITIES

- (ii) a premium of approximately 13.92% based on the average closing price of HK\$0.158 per Share as quoted on the Stock Exchange for the last 5 consecutive trading days up to and including the Last Trading Day;
- (iii) a premium of approximately 13.21% based on the average closing price of HK\$0.159 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day; and
- (iv) a discount of approximately 26.83% based on the audited net asset value of the Company as at 31 December 2013 in the approximate amount of HK\$0.246 per Share.

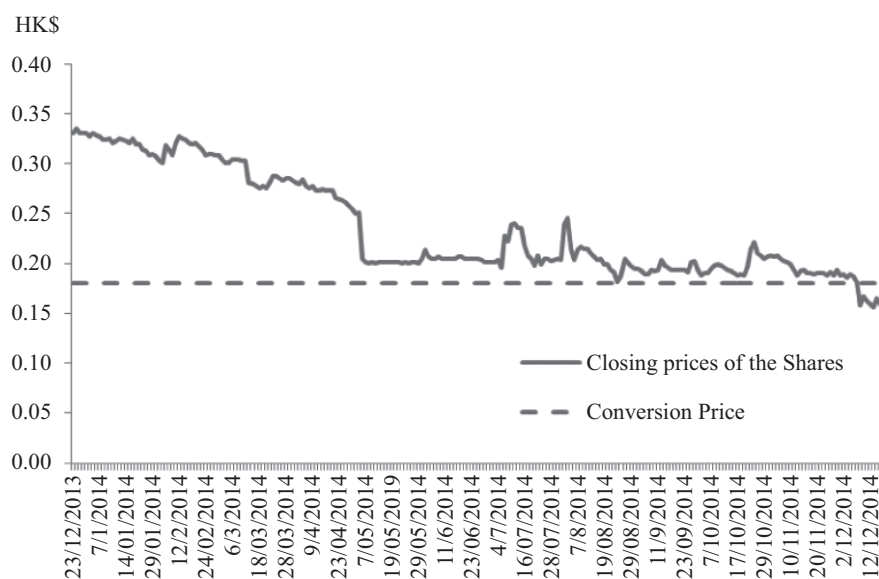
Further to the above analysis, when assessing the fairness and reasonableness of the Conversion Price, we have also taken into account of (i) the daily closing price of the Shares as quoted on the Stock Exchange commenced on 22 December 2013 (being the 12 calendar months period prior to the date of the Sale and Purchase Agreement) up to and including the Last Trading Day (the “Share Price Review Period”); and (ii) the comparison of the recent issues (the three months immediately before the date of the Sale and Purchase Agreement) of convertible bonds/notes by companies listed on the Main Board and Growth Enterprise Market of the Stock Exchange.

For the review of the Company’s share price movement, we have selected a longer time period as compare to the comparison of convertible bonds/notes mainly because in analyzing historical share price performance, a shorter period (e.g., less than 6 months) may not be sufficient for us to establish a reasonable historical share price trend of the Company whilst a longer period (e.g., more than 1 year) may be too distant in time and thus making such historical trend less relevant. Therefore, a review period of one year prior to the date of the Sale and Purchase Agreement will allow us to gather a meaningful sample of share price data of the Company for us to understand the share price movement and/or trend of the Company. However, a shorter time period is used in analyzing convertible bonds/notes issued on the Stock Exchange because the time period selected, in our opinion, will contain a reasonable and representative sample size for the purpose of conducting convertible bonds/notes comparable analysis. If a longer period (e.g., more than 3 months) was used, it may have generated too many comparables and making the analysis less representative to the current market situation. Also, extending the time period covered would also make some of the earlier comparables too distant in time which would not have taken into account the recent events that occurred in the dynamic financial markets. In the light of the above, we have selected different time period for the purpose of analyzing the share price performance of the Company and conducting the convertible bonds/notes comparable analysis.

LETTER FROM BEIJING SECURITIES

(i) Share price movement during the Share Price Review Period

Set out below is the Share price movement during the Share Price Review Period. We are of the view that the Share Price Review Period is a reasonable timeframe given that it covers a period encompassing one full calendar year prior to the date of the Sale and Purchase Agreement. Such period is also sufficient for us to carry out our analysis on the historical share price performance of the Company as we consider that such timeframe is of sufficient length to avoid any short term fluctuation which may distort our analysis and that it also reflects the recent share price performance of the Company.



Source: Stock Exchange

Note: The closing prices of Share from 23 December 2013 to 7 July 2014 were adjusted to reflect a share consolidation of the Company.

As illustrated in the chart above, during the Share Price Review Period, the lowest closing price of the Shares was HK\$0.152 per Share which was recorded on 22 December 2014. The highest closing price of the Shares was HK\$0.335 per Share which was recorded on 24 December 2013. Therefore, the Conversion Price represents a premium of approximately 18.42% over such lowest closing price of the Share and a discount of approximately 46.27% to such highest closing price of the Share. Furthermore, we note that the closing prices of Shares were in a downward trend. As discussed above, the highest closing price of Share was recorded at beginning of the Share Price Review Period whilst the lowest closing price was recorded on 22 December 2014, being the last day of the Share Price Review Period.

LETTER FROM BEIJING SECURITIES

(ii) *Comparison with other convertible bonds/notes*

We have also looked into recent issues of convertible bond by companies listed on the Main Board and Growth Enterprise Market of the Stock Exchange of Hong Kong (the “Comparable Companies”) which have made announcements for acquisition by issuing convertible bonds/notes during the three months immediately before the date of the Sale and Purchase Agreement (“Comparable Period”) for reference. However to maintain a representative sample population, we have excluded those acquisitions by companies which had been suspended for trading for more than 12 months, did not contain a definite exercise period, contained floating interest rate and/or issued under a bond/convertible bond exchange or restructuring programme.

As there were 23 Comparable Companies during the Comparable Period, such sample size is reasonable in our view. Furthermore, having considered the recent volatility of the Hong Kong stock market and that the Comparable Companies (i) adequately covers the prevailing market conditions and sentiments in the Hong Kong stock market; (ii) such period represents the recent structure of issuance of convertible bonds/notes in Hong Kong which, for example, plays an important role in the determination of the Conversion Price in general; and (iii) provides the Shareholders a general understanding of convertible bonds/notes transactions being conducted in the Hong Kong stock market, we considered that the Comparable Period being three months prior to and including the date of the Sale and Purchase Agreement is appropriate for this comparable analysis.

Although the scale of operations, financial positions, and future prospects of the Comparable Companies may vary, having taken into account that (i) the stock market sentiments may vary from time to time, and the terms of the Comparable Companies which were issued three months prior to the Sale and Purchase Agreement were determined under similar market conditions and sentiments as the Convertible Bond and thus may reflect the recent trend of the terms of convertible notes/bonds in the market; and (ii) the convertible notes/bonds of the Comparable Companies were issued to both connected persons and independent third parties to the Comparable Companies, we consider that the list of Comparable Companies is an exhaustive list and are of the opinion that the Comparable Companies are fair, sufficient and representative samples for our analysis purpose.

LETTER FROM BEIJING SECURITIES

Company (stock code)	Date of announcement	Denomination	Principal amount	Maturity (years)	Annual interest rate (%)	Premium/ (discount) over/(to) the closing price on the last trading day as per the corresponding announcement of the Comparable Companies (%)	Premium/ (discount) over/(to) the average closing price of the last five trading days as per the corresponding announcement of the Comparable Companies (%)
China Resources and Transportation Group Ltd (269)	28-Sep-14	HKD	600,000,000	3.00	9.00	56.90	42.40
Blue Sky Power Holdings Ltd (6828)	30-Sep-14	HKD	50,000,000	3.00	8.00	1.55	3.41
China Aluminum Cans Holdings Ltd (6898)	3-Oct-14	HKD	780,000,000	5.00	Nil	2.00	2.00
Madex International (Holdings) Ltd (231)	7-Oct-14	HKD	412,000,000	1.50	5.00	(3.68)	(15.67)
Blue Sky Power Holdings Ltd (6828)	7-Oct-14	HKD	213,045,259	3.00	Nil	(7.82)	(5.01)
China Renji Medical Group Ltd (648)	9-Oct-14	HKD	86,688,720	1.00	8.00	(13.51)	2.56
Chun Wo Development Holdings Ltd (711)	20-Oct-14	HKD	84,266,000	3.00	Nil	(54.16)	(54.78)
ZMFY Automobile Glass Services Ltd (8135)	20-Oct-14	HKD	60,816,000	3.00	1.00	(20.00)	(10.61)
Zhongtian International Ltd (2379)	21-Oct-14	HKD	23,000,000	1.00	6.00	(10.83)	(8.55)
Golden Meditech Holdings Ltd (801)	22-Oct-14	USD	20,000,000	3.00	5.00	12.00	15.70
Haitong International Securities Group Ltd (665)	24-Oct-14	HKD	776,000,000	5.00	1.25	30.15	33.63
Shunfeng International Clean Energy Ltd (1165)	28-Oct-14	HKD	2,800,000,000	3.00	5.00	1.89	1.04
National United Resources Holdings Ltd (254)	28-Oct-14	HKD	30,130,000	1.00	6.00	0.88	(1.12)
Blue Sky Power Holdings Ltd (6828)	3-Nov-14	HKD	143,000,000	3.00	Nil	0.74	(0.24)
Louis XIII Holdings Ltd (577)	20-Nov-14	HKD	1,560,000,000	10.00	Nil	(23.50)	(25.20)

LETTER FROM BEIJING SECURITIES

Company (stock code)	Date of announcement	Denomination	Principal amount	Maturity (years)	Annual interest rate (%)	Premium/ (discount) over/(to) the closing price on the last trading day as per the corresponding announcement of the	Premium/ (discount) over/(to) the average closing price of the last five trading days as per the corresponding announcement of the
						Comparable Companies (%)	Comparable Companies (%)
HC International, Inc (2280)	20-Nov-14	HKD	780,000,000	5.00	5.00	20.00	17.00
Green International Holdings Ltd (2700)	21-Nov-14	HKD	162,750,000	3.00	2.00	(32.00)	(24.40)
China Resources and Transportation Group Ltd (269) (Note 1)	28-Nov-14	HKD	3,192,000,000	1 to 3	9.00	11.73	9.28
Haitian Hydropower International Ltd (8261)	1-Dec-14	HKD	115,000,000	2.00	5.00	(19.87)	(16.10)
Merdeka Mobile Group Ltd (8163)	9-Dec-14	HKD	40,000,000	3.00	Nil	30.61	30.72
Quali-Smart Holdings Ltd (1348)	11-Dec-14	HKD	58,000,000	2.00	Nil	(18.00)	(13.60)
SMI Holdings Group Ltd (198)	11-Dec-14	RMB USD	30,000,000 5,160,000	3.00	7.00	23.64	18.88
Sheng Yuan Holdings Ltd (851) (Note 2)	19-Dec-14	HKD	135,000,000	3.00	8.00	40.00	39.20
Average				3.15	5.64	1.25	1.76
Maximum				10.00	9.00	56.90	42.40
Minimum				1.00	1.00	(54.16)	(54.78)
Company	22-Dec-14	HKD	300,000,000	3.00	9.00	18.42	13.92

Notes:

- 1) China Resources and Transportation Group Ltd has proposed to issue convertible bonds due on either 2016 or 2018. A maturity of 3 years in is used for China Resources and Transportation Group Ltd for the calculation of average maturity of the Comparable Companies.
- 2) On 5 November 2014 and 19 December 2014, Sheng Yuan Holdings Limited announced that it would issue convertible bonds with principal amount of HK\$100,000,000 and HK\$35,000,000 respectively. The terms of these convertible bonds were the same except for the principal amount. The premium/(discount) over/(to) the closing price on the last trading day and the last five trading days respectively as per the corresponding announcement of Sheng Yuan Holdings Limited are based on the 19 December 2014 announcement.

LETTER FROM BEIJING SECURITIES

The discount/premium represented by the conversion prices of the respective Comparable Companies to/over their respective closing prices of the shares on the last trading day as per their corresponding announcements ranged from a discount of approximately 54.16% to a premium of approximately 56.90% (the “LTD Range”) with an average premium of 1.25%. We note that the premium of the Conversion Price to the closing price of Shares on the Last Trading Day falls within the LTD Range and is also above the average LTD Range.

The discount/premium represented by the conversion prices of the respective Comparable Companies to/over their respective average closing prices of the shares for the five consecutive trading days as per their corresponding announcements ranged from a discount of approximately 54.78% to a premium of approximately 42.40% (the “5-Day Range”) with an average premium of 1.76%. Upon comparison, we note that the premium of the Conversion Price to the average closing price of Shares for the last five consecutive trading days up to and including the Last Trading Day also falls within the 5-Day Range and is also above the average 5-Day Range.

Having considered that (i) the Conversion Price is at a premium of 18.42% and 13.92% over both the Last Trading Day and the last 5 consecutive trading days up to and including the Last Trading Day respectively; (ii) the downward trend of the closing prices of the Shares during the Share Price Review Period and that the Conversion Price is within the range of closing prices of the Shares during the Share Price Review Period; and (iii) the premium represented by the Conversion Price to the closing price of Shares on the Last Trading Day and on the average closing price of Shares for the last five consecutive trading days up to and including the Last Trading Day are all within the range of the LTD Range and the 5-Day Range and such premiums are also above the average LTD Range and the average 5-Day Range, we consider that the Conversion Price offered to the Vendor or its nominee is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

3.3 Interest of the Convertible Bond and Interest Conversion Arrangement

As set out above in this letter, the Convertible Bond carries an interest rate of 9% per annum, accrued daily on a 365 days basis and payable annually in arrear. The interest rate of 9% per annum was determined after arm’s length negotiations between the parties. Furthermore, we note that the interest rate of the Comparable Companies ranged from 1% to 9% per annum and thus the interest rate of 9% per annum for the Convertible Bond is within the said interest rate range of the Comparables Companies.

LETTER FROM BEIJING SECURITIES

As set out above in this letter, the bondholder shall be entitled to request the Company to pay interest to it under the provisions of the Convertible Bond by way of allotment and issuance of Interest Conversion Shares at the due day of the interest payment in lieu of payment by cash by giving not less than 7 Business Days' written notice prior to the due date for payment of interest. The number of such Shares to be allotted and issued shall equal to the amount of the interest due to be paid to the bondholder divided by the Conversion Price per Share on the due day of interest payment subject to adjustments as described in the provisions of the Convertible Bond provided that the Takeovers Code and the GEM Listing Rules are complied with as specified above in this letter.

Furthermore, as set out in Letter from the Board, the Interest Conversion Arrangement is agreed between the Purchaser and the Vendor after their arm's length negotiation. The Directors consider that the Interest Conversion Arrangement is in the interest of the Company and the Shareholders as a whole and the potential dilution effect to the shareholding of the public Shareholders is acceptable as the Company can save interest payment in cash if the holder of the Convertible Bond requests the Company to pay interest to it by way of allotment and issuance of the Interest Conversion Shares. The Directors also consider that it is fair and reasonable to have the Interest Conversion Price based on the Conversion Price, since (i) the initial Conversion Price is at a premium to the closing price per Share on the Last Trading Day, and (ii) the interest to be payable under the Convertible Bond is part of the terms of the Convertible Bond and accordingly it is logical that the conversion of the interest and the conversion of the principal are subject to the same price. The Interest Conversion Shares will rank *pari passu* in all respects with the existing Shares.

In the light that (i) the interest under the Convertible Bond fall within the range of the interests of the Comparable Companies; (ii) the Interest Conversion Price is equivalent to the Conversion Price which is at premium to the closing price of Share on the Last Trading Day and to the closing prices for the five consecutive trading day up to and including the Last Trading Day and such premiums are also above the average LTD Range and the average 5-Day Range; and (iii) the Interest Conversion Arrangement would save the interest expense and reduce cash outflow of the Company for its development given the Group has been loss making for the two years ended 31 December 2013 and for the six months ended 30 June 2014, we consider that the interest rate of the Convertible Bond and the Interest Conversion Arrangement are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

LETTER FROM BEIJING SECURITIES

3.4 Potential dilution to the shareholding of the Shareholders

The table showing the effect of the Acquisition on the shareholding structure of the Company has been set out under the section headed “Effects on the Shareholding Structure” in the Letter from the Board.

As shown in the shareholding table, the existing shareholding of the Independent Shareholders will be decreased from approximately 56.02% to approximately 35.52% upon full conversion of the Convertible Bond and further decreased to approximately 32.33% upon full conversion of the Convertible Bond and allotment and issuance of the Interest Conversion Shares in full.

Pursuant to the terms of the Convertible Bond, no holder of the Convertible Bond shall exercise any Conversion Rights to the extent that immediately after such conversion (i) the holder of the Convertible Bond 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 Takeovers Code 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 Takeovers Code or (ii) there will not be sufficient public float of the Shares as required under the GEM Listing Rules (the “CB Conversion Restriction”). Also as set out in the Letter from the Board, the holder of the Convertible Bond shall not request the Company to pay interest by way of allotment and issuance of new Shares to the extent that immediately after such allotment and issuance (i) the holder of the Convertible Bond 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 in such percentage as may from time to time be specified in the Takeovers Code being the level for triggering a mandatory general offer) or otherwise, such that a general offer shall be given in accordance with the requirement of the Takeovers Code or (ii) there will not be sufficient public float of the Shares as required under the GEM Listing Rules (the “Interest Conversion Restriction”). As shown in the section headed “Effects on the Shareholding Structure” in the Letter from the Board, under the CB Conversion Restriction and the Interest Conversion Restriction, the existing shareholding of the Independent Shareholders will be decreased from approximately 56.02% to approximately 51.97% upon allotment and issuance of the Conversion Shares to the extent that Conversion Restriction and the Interest Conversion Restriction have been complied.

Also having considered:

- (i) the future opportunities in the film industry of the PRC and tourism industry in the Guangdong Province as supported by the statistics of the box office receipts of the PRC and the total tourism revenue in Guangdong Province respectively;

LETTER FROM BEIJING SECURITIES

- (ii) the successful partial opening of the Xiqiao National Arts Film Studio Project in 2014 and which has been revenue generating and that the Land shall provide further opportunities for the Group to develop the area surrounding the Xiqiao National Arts Film Studio Project;
- (iii) it is expected that the Land and its development will enhance the film production capacity of the Group and the diversity of businesses in Xiqiao region;
- (iv) the Acquisition is aligned with the business strategy of the Company;
- (v) the Consideration has been determined fairly by reference to the Valuation;
- (vi) the Conversion Price represented premiums over the closing price of the Shares on the Last Trading Day and over the average closing price of the Shares for the last five consecutive trading days up to and including the Last Trading Day;
- (vii) the premium of the Conversion Price to the closing price of the Shares on the Last Trading Day and the closing price of the Shares for the five consecutive trading days up to and including the Last Trading Day fall within the LTD Range and the 5-Day Range respectively and such premiums are also above the average LTD Range and the average 5-Day Range;
- (viii) the Interest Conversion Price is equivalent to the Conversion Price; and
- (ix) the Interest Conversion Arrangement would save the interest expense and reduce cash outflow of the Company for its development given the Group has been loss making for the two years ended 31 December 2013 and for the six months ended 30 June 2014,

we consider the dilution effect is acceptable.

LETTER FROM BEIJING SECURITIES

4. Promissory Notes

Pursuant to the Sale and Purchase Agreement, the Company will issue the Promissory Notes to the Vendor or its nominee in satisfaction of part of the Consideration.

Set out below is a summary of the principal terms of the Promissory Notes:

Principle amount: Promissory Note 1: HK\$80,000,000, subject to adjustments in accordance with the Sale and Purchase Agreement.

Promissory Note 2: HK\$20,000,000.

Please refer to the sub-section headed “Adjustment of Consideration” above in this letter for more details of the adjustment mechanisms.

Maturity: On the date falling on the expiry of three calendar years from the date of issue of the respective Promissory Notes.

Interest: Each of the Promissory Notes shall bear interest at the rate of 9% per annum on the outstanding principal payable annually in arrears.

Security: Unsecured.

Repayment: The Company is entitled to repay any outstanding principal amount of the Promissory Notes at any time prior to the maturity date.

Taking into account that the Promissory Notes (i) are agreed between the Purchaser and the Vendor after arm’s length negotiation; (ii) provides the Company with a mechanism to adjust and reduce the Consideration; (iii) are unsecured with no collateralization; (iv) allow the Company to, at any time prior to maturity, repay any outstanding principal amount of the Promissory Notes with no penalties; and (v) have interest rate being the same as the interest rate payable under the Convertible Bond, we consider that the issuance of the Promissory Notes is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

LETTER FROM BEIJING SECURITIES

5. Financial effects of the Acquisition

(i) *Net asset value*

As set out in the Interim Report, the net asset value of the Group as at 30 June 2014 was approximately HK\$638.1 million. As set out in the unaudited pro forma financial information of the Enlarged Group in Appendix III to the Circular, upon completion of the Acquisition, net asset value of the Group will increase to approximately HK\$648.4 million.

(ii) *Earnings*

Upon completion of the Acquisition, the Target Company will become a wholly-owned subsidiary of the Company. In view that (i) both the Studio and the Hotel have commenced partial opening in 2014 and have been revenue generating; and (ii) the Acquisition will enable the Company to enhance its film production capacity and to diversify the businesses in the Xiqiao region, we consider that it is a fair expectation that the Acquisition will generate a positive impact on the earnings of the Group in the future.

RECOMMENDATION

Having considered the principal factors discussed above and, in particular the following:

- (i) the future opportunities in the film industry of the PRC and tourism industry in the Guangdong Province as supported by the statistics of the box office receipts of the PRC and the total tourism revenue in the Guangdong Province respectively;
- (ii) the successful partial opening of the Xiqiao National Arts Film Studio Project in 2014 and which has been revenue generating and that the Land shall provide further opportunities for the Group to develop the area surrounding the Xiqiao National Arts Film Studio Project;
- (iii) the Land and its development will enhance the film production capacity of the Group and the diversity of businesses in the Xiqiao region;
- (iv) the Acquisition is aligned with the business strategy of the Company;
- (v) the Consideration has been determined fairly by reference to the Valuation;
- (vi) the Conversion Price represented premiums over the closing price of the Shares on the Last Trading Day and over the average closing price of the Shares for the last five consecutive trading days up to and including the Last Trading Day;

LETTER FROM BEIJING SECURITIES

- (vii) the premium of the Conversion Price to the closing price of the Shares on the Last Trading Day and the closing price of the Shares for the five consecutive trading days up to and including the Last Trading Day fall within the LTD Range and the 5-Day Range respectively and such premiums are also above the average LTD Range and the average 5-Day Range;
- (viii) the Interest Conversion Price is equivalent to the Conversion Price;
- (ix) the Interest Conversion Arrangement would save the interest expense and reduce cash outflow of the Company for its development given the Group has been loss making for the two years ended 31 December 2013 and for the six months ended 30 June 2014;
- (x) the potential dilution in the shareholding of the public Shareholders from the issuance of the Convertible Bond is acceptable; and
- (xi) the Promissory Notes are agreed between the Purchaser and the Vendor after arm's length negotiation and provided the Company with a mechanism to adjust and reduce the Consideration,

we consider that the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. We therefore advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favour of the resolution(s) in respect of the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Beijing Securities Limited
Charles Li
Director

THREE-YEAR FINANCIAL INFORMATION

The audited consolidated financial statements of the Group for each of the three years ended 31 December 2011, 2012 and 2013 are included in the annual reports of the Company for the years ended 2011 (pages 33 to 121) (<http://www.hkexnews.hk/listedco/listconews/GEM/2012/0329/GLN20120329370.pdf>), 2012 (pages 32 to 121) (<http://www.hkexnews.hk/listedco/listconews/GEM/2013/0328/GLN20130328085.pdf>) and 2013 (pages 34 to 123) (<http://www.hkexnews.hk/listedco/listconews/GEM/2014/0328/GLN20140328253.pdf>) respectively, which are published on both of the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<http://www.nationalarts.hk/Annual>). The auditors of the Company have not issued any qualified opinion on the Group's consolidated financial statements for any of the financial years ended 31 December 2011, 2012 and 2013.

The Group is principally engaged in film production and distribution, the provision of management services to artistes, and operation of film studio and hotels.

INDEBTEDNESS OF THE ENLARGED GROUP

At the close of business on 31 January 2015, being the latest practicable date for the purpose of ascertaining the indebtedness of the Enlarged Group prior to the printing of this circular, the Group had loans from a related company of approximately HK\$12,400,000, unsecured loan from a director of approximately HK\$30,704,000, borrowings of approximately HK\$194,540,000, unsecured bonds – principal amount of approximately HK\$92,275,000 (excluded interest payables of approximately HK\$11,468,000), unsecured convertible bonds – principal amount of approximately HK\$224,000,000 (excluded interest payables of approximately HK\$17,598,000) and finance lease obligation of approximately HK\$19,403,000.

Securities

At 31 January 2015, loans from a related company are secured by a corporate guarantee granted by the Company.

At 31 January 2015, certain borrowings amounted to approximately HK\$17,000,000 were secured by leasehold buildings with book amount of approximately HK\$15,160,000 and a corporate guarantee granted by the Company.

As at 31 January 2015, certain borrowings amounted to approximately HK\$70,000,000 were secured by the share charge over of the entire share capital of certain wholly-owned subsidiaries of the Company.

At 31 January 2015, finance lease obligation was secured by investment properties of approximately HK\$19,403,000.

Contingent Liabilities

According to the land lease agreements signed between the Group 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 Group shall invest no less than RMB300 million for the projects or the Group is liable to pay RMB4 million as damages to the local authority. 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. The directors of the Company are of the opinion that the conditions set in the leasing agreements could be achieved and no provision for liability is necessary.

As at 31 January 2015, the Group had no material contingent liabilities.

As at 31 January 2015, certain bank loan facilities were secured by leasehold buildings with book amount of approximately HK\$15,160,000 and a corporate guarantee granted by the Company. Such bank loan facilities amounted to approximately HK\$17,000,000 were utilised to the extent of approximately HK\$16,940,000.

As at 31 January 2015, certain other loan facilities were secured by the share charge over of the entire share capital of certain wholly-owned subsidiaries of the Company. Such other loan facilities amounted to approximately HK\$200,000,000 were utilised to the extent of approximately HK\$70,000,000.

Disclaimers

Save as disclosed above, the Group, apart from intra-group liabilities, did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptance (other than normal trade bills), or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities as at 31 January 2015.

WORKING CAPITAL

The Directors are of the opinion that after taking into account the financial resources available to the Group, including internally generated funds, the credit facilities available to the Group, the Group has sufficient working capital for its present requirements for at least 12 months from the date of this circular, in the absence of any unforeseeable circumstances.

MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirmed that there had been no material adverse change in financial or trading position of the Group since 31 December 2013, being the date of which the latest audited financial statements of the Group were made up.

1. ACCOUNTANTS' REPORT OF THE TARGET COMPANY

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong.



國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

23 March 2015

The Board of Directors
National Arts Entertainment and Culture Group Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) regarding Lux Unicorn Limited (“Target Company”) for the period ended 31 December 2013 and for the nine months ended 30 September 2014 (the “Relevant Periods”) for inclusion in the circular issued by National Arts Entertainment and Culture Group Limited (the “Company”) dated 23 March 2015 (the “Circular”) in connection with, among others, the proposed acquisition of the entire issued share capital of the Target Company by Elegant Motion Enterprises Limited, which is a direct wholly owned subsidiary of the Company (the “Acquisition”).

The Target Company was incorporated in Hong Kong on 11 July 2013 with limited liabilities. The Target Company is principally engaged in the sourcing and execution of investment opportunities for real estate development projects in the People’s Republic of China (the “PRC”). The address of the registered office and principal place of business of the Target Company is Unit B, 2/F., Jone Mult Factory Building, 169 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong.

The Target Company has adopted 31 December as its financial year end date.

No audited financial statements have been prepared for the Target Company since its date of incorporation as it is newly incorporated.

For the purpose of this report, the sole director of the Target Company has prepared the financial statements of the Target Company for the Relevant Periods (the “Underlying Financial Statements”) using accounting policies which are in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). We have undertaken an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the HKICPA.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET COMPANY

For the purpose of this report, we have examined the Underlying Financial Statements and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

The Financial Information of Target Company for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements on the basis set out in Note 3 of Section A below. No adjustments were considered necessary to the Underlying Financial Statements in preparing our report for inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the sole director of the Target Company who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Target Company as at 31 December 2013, and 30 September 2014 and of the Target Company’s results and cash flows for the Relevant Periods.

Without qualifying our report, we draw attention to Note 2 in the Financial Information which indicates that the Target Company’s net liabilities of approximately HK\$10,000 and HK\$19,000 as at 31 December 2013 and 30 September 2014. These conditions, along with other matters as set forth in Note 3 of Section A below, indicate the existence of a material uncertainty which may cast significant doubt about the Target Company’s ability to continue as a going concern.

The corresponding statement of profit or loss and other comprehensive income and statement of changes in equity of the Target Company for the period ended 30 September 2013 together with the notes thereon (the “September 2013 Financial Information”) have been extracted from the Target Company’s unaudited financial information for the same period, which was prepared by the sole director of the Target Company solely for the purpose of this report. We have reviewed the September 2013 Financial Information in accordance with the Hong Kong Standard on Review Engagement 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. Our review of the September 2013 Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with HKSA and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the September 2013 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the September 2013 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with HKFRS.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET COMPANY

A. FINANCIAL INFORMATION

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Period from 11 July 2013 (date of incorporation) to 31 December 2013 <i>HK\$'000</i>	Period from 11 July 2013 (date of incorporation) to 30 September 2013 <i>HK\$'000</i> (Unaudited)	Nine months ended 30 September 2014 <i>HK\$'000</i>
	<i>Notes</i>			
Revenue	7	—	—	—
Operating expenses		(10)	(10)	(9)
Loss from business operations		(10)	(10)	(9)
Loss before tax		(10)	(10)	(9)
Income tax expense	8	—	—	—
Loss for the period	9	(10)	(10)	(9)
Other comprehensive expense for the period, net of income tax		—	—	—
Total comprehensive expense for the period		(10)	(10)	(9)
Loss and total comprehensive expense attributable to owner of the Target Company		(10)	(10)	(9)

APPENDIX II FINANCIAL INFORMATION OF THE TARGET COMPANY

STATEMENTS OF FINANCIAL POSITION

		As at 31 December 2013 <i>HK\$'000</i>	As at 30 September 2014 <i>HK\$'000</i>
	<i>Notes</i>		
ASSETS AND LIABILITIES			
Current assets			
Deposit		<u>1,250</u>	<u>1,250</u>
Current liabilities			
Amount due to a director	12	<u>1,260</u>	<u>1,269</u>
Net current liabilities		<u>(10)</u>	<u>(19)</u>
Net liabilities		<u>(10)</u>	<u>(19)</u>
EQUITY			
Equity attributable to owner of Target Company			
Share capital	13	—	—
Reserves		<u>(10)</u>	<u>(19)</u>
Total equity		<u>(10)</u>	<u>(19)</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET COMPANY

STATEMENTS OF CHANGES IN EQUITY

	Attributable to owner of the Target Company		Total HK\$'000
	Share Capital HK\$'000 (Note 13)	Accumulated losses HK\$'000	
Transaction with an owner – issuance of share at date of incorporation	–	–	–
Loss and total comprehensive expense for the period	–	(10)	(10)
Balance at 31 December 2013 and 1 January 2014	–	(10)	(10)
Loss and total comprehensive expense for the period	–	(9)	(9)
Balance at 30 September 2014	–	(19)	(19)
(Unaudited)			

	Attributable to owner of the Target Company		Total HK\$'000
	Share Capital HK\$'000 (Note 13)	Accumulated losses HK\$'000	
Transaction with an owner – issuance of share at date of incorporation	–	–	–
Loss and total comprehensive expense for the period	–	(10)	(10)
Balance at 30 September 2013	–	(10)	(10)

APPENDIX II FINANCIAL INFORMATION OF THE TARGET COMPANY

STATEMENTS OF CASH FLOWS

	Period from 11 July 2013 (date of incorporation) to 31 December 2013 <i>HK\$'000</i>	Period from 11 July 2013 (date of incorporation) to 30 September 2013 <i>HK\$'000</i> (Unaudited)	Nine months ended 30 September 2014 <i>HK\$'000</i>
Cash flows from operating activities			
Loss before tax	(10)	(10)	(9)
Operating cash flows before movements in working capital	(10)	(10)	(9)
Increase in deposit	(1,250)	(1,250)	—
Net cash used in operating activities	(1,260)	(1,260)	(9)
Cash flows from financing activities			
Issue of ordinary shares	—	—	—
Increase in amount due to a director	1,260	1,260	9
Net cash generated by financing activities	1,260	1,260	9
Net change in cash and cash equivalents	—	—	—
Cash and cash equivalents at the beginning of period	—	—	—
Cash and cash equivalents at the end of period	—	—	—

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION OF TARGET COMPANY

The Target Company was incorporated in Hong Kong on 11 July 2013 as a limited liability company. The address of its registered office and principal place of business is Unit B, 2/F., Jone Malt Factory Building, 169 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong. The Target Company is principally engaged in the sourcing and execution of investment opportunities for real estate development projects in the PRC.

The Financial Information of the Target Company is presented in Hong Kong Dollars (“HK\$”), which is also the functional currency of the Company.

2. APPLICATION OF HKFRS

For the purposes of preparing and presenting Financial Information for the Relevant Periods, the Target Company has adopted all relevant HKFRS, HKAS, amendments and interpretations issued by HKICPA which are effective for annual period beginning on 1 January 2014 consistently throughout the Relevant Periods.

New and revised HKFRS issued but not effective

At the date of this report, the HKICPA has issued the following new and revised standards, amendments and interpretations that are not yet effective in the Relevant Periods, which the Target Company has not early applied.

Annual Improvement Projects	Annual Improvement 2010-2012 Cycle ¹
Annual Improvement projects	Annual Improvement 2011-2013 Cycle ¹
Annual Improvement projects	Annual Improvement 2012-2014 Cycle ²
HKFRS 9	Financial Instruments ⁴
HKFRS 10 and	Sale or Contribution of Assets between an Investor
HKAS 28 (Amendments)	and its Associate or Joint Venture ²
HKFRS 11 (Amendments)	Accounting for Acquisitions of Interests in Joint
	Operations ²
HKFRS 14	Regulatory Deferral Accounts ²
HKFRS 15	Revenue from Contracts with Customers ³
HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation
(Amendments)	and Amortisation ²
HKAS 16 and HKAS 41	Agriculture: Bearer Plants ²
(Amendments)	
HKAS 19 (2011)	Defined Benefit Plans: Employee Contributions ¹
(Amendments)	
HKAS 27 (Amendments)	Equity Method in Separate Financial Statements ²

- ^{1.} Effective for annual periods beginning on or after 1 July 2014 as appropriate, with earlier permitted.
- ^{2.} Effective for annual periods beginning on or after 1 January 2016 as appropriate, with earlier permitted.
- ^{3.} Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
- ^{4.} Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

The sole director of the Target Company anticipates the application of these new and revised HKFRS will have no material impact on the Financial Information.

In addition, the requirement of Part 9 “Accounts and Audit” of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Target Company’s first financial year commencing on or after 3 March 2014 in accordance with section 358 of that Ordinance. The Target Company is in the process of making an assessment of expected impact of the changes in the Hong Kong Companies Ordinance on the financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the Financial Information will be affected.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The Financial Information of the Target Company has been prepared in accordance with the HKFRS (which include all applicable HKAS, amendments and interpretations) issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and by the Hong Kong Company Ordinance.

Basis of preparation

The Financial Information has been prepared on a going concern basis which assumes the realisation of assets and satisfaction of liabilities in the ordinary course of business notwithstanding that Target Company had net current liabilities and capital deficiency of approximately HK\$10,000 and HK\$19,000 as at 31 December 2013 and 30 September 2014 respectively; incurred a loss of approximately HK\$10,000 and HK\$9,000 for the period from 11 July 2013 (date of incorporation) to 31 December 2013 and for the nine months ended 30 September 2014 respectively; and had operating lease commitments in respect of lease payments for land plots in the PRC of approximately HK\$88,738,000 (note 14). The Financial Information has been prepared on a going concern basis, the validity of which depends upon the continuing financial support from the sole shareholder of the Target Company at a level sufficient to finance the capital commitments as well as working capital requirements of the Target Company. The sole shareholder of the Target Company has agreed to provide adequate funds for Target Company to meet its liabilities as they fall due. Subsequent to the Relevant Periods, the sole director confirmed in writing that no demand for settlement of the outstanding amount would be made, if required. Accordingly the Financial Information has been prepared on a going concern basis.

The Financial Information have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each of the Relevant Periods, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Target Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET COMPANY

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Target Company as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Foreign currencies

In preparing the Financial Information of the Target Company, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of the Relevant Periods, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

Taxation

Income tax expense represents the sum of tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the period. Taxable profit differs from “loss before tax” as reported in the statements of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other periods and items that are never taxable or deductible. The Target Company’s liabilities for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the Relevant Periods.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where Target Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each of the Relevant Periods and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liabilities is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the Relevant Periods.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Target Company expects, at the end of the Relevant Periods, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the Relevant Periods

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Financial instruments

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET COMPANY

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Target Company's financial assets are loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including deposit) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

The Target Company's financial assets are assessed for indicators of impairment at the end of reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Target Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET COMPANY

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by the Target Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liabilities and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Target Company are recognised at the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities (amount due to a director) are subsequently measured at amortised cost using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liabilities and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liabilities, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derecognition

The Target Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Target Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Target Company continues to recognise the asset to the extent of its continuing involvement and recognises an associated liabilities. If the Target Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Target Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET COMPANY

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Target Company allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Target Company derecognises financial liabilities when, and only when, the Target Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liabilities derecognised and the consideration paid and payable is recognised in profit or loss.

Related parties

A party is considered to be related to the Target Company if:

- (i) the party is a person or a close member of that person's family and that person,
 - (a) has controls or joint control over the Target Company;
 - (b) has significant influence over the Target Company; or
 - (c) is a member of the key management personnel of the Target Company or of a parent of the Target Company;
- or
- (ii) the party is an entity where any of the following conditions applies:
 - (a) the entity and the Target Company are members of the same group;
 - (b) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (c) the entity and the Target Company are joint ventures of the same third party;
 - (d) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (e) the entity is a post-employment benefit plan for the benefit of employees of either the Target Company or an entity related to the Target Company;
 - (f) the entity is controlled or jointly controlled by a person identified in (i); and
 - (g) a person identified in (i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

APPENDIX II FINANCIAL INFORMATION OF THE TARGET COMPANY

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Target Company's accounting policies, which are described in Note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revisions affect only that period, or in the period of the revisions and future periods if the revisions affect both current and future periods. However, there are no critical accounting estimates or assumptions used in the Financial Information that the director expects will have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period.

5. CAPITAL RISK MANAGEMENT

The Target Company manages its capital with a view to maximising the return to shareholders through the optimisation of the debt and equity balance. The Target Company's overall strategy remains unchanged throughout the Relevant Periods.

The capital structure of the Target Company consists of net debt, which includes borrowings net of cash and cash equivalents and equity attributable to owner of the Target Company, comprising share capital and reverses.

The sole director of the Target Company reviews the capital structure on a continuous basis taking into account the cost of capital and the risks associated with each class of capital. The Target Company will balance its overall capital structure through the new share issues as well as issue of new debts.

The Target Company is not subject to any externally imposed capital requirements.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	As at 31 December 2013 HK\$'000	As at 30 September 2014 HK\$'000
Financial assets		
Loan and receivables		
Deposit	1,250	1,250
Financial liabilities		
Amortised costs		
Amount due to a director	1,260	1,269

(b) Financial risk management objectives and policies

The Target Company's major financial instruments include amount due to a director.

Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate the effects of these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET COMPANY

There has been no change to the types of the Target Company's exposure in respect of financial instruments or the manner in which it manages and measures the risks throughout the Relevant Periods.

Interest rate risk

At the end of the Relevant Periods, the Target Company has no significant interest-bearing assets and liabilities. The Target Company is not exposed to significant cash flow and fair value interest risk.

Credit risk

At the end of the Relevant Periods, the Target Company has no significant concentrations of credit risk.

Liquidity risk

In the management of the liquidity risk, the Target Company monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Target Company's operations and mitigate the effects of fluctuations in cash flows.

Liquidity tables

The following table details the Target Company's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Target Company can be required to pay, and includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from current interest rate at the end of each of the Relevant Periods.

	Weight average interest rate %	On demand or within 1 year HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amounts HK\$'000
At 31 December 2013				
Non-derivative financial liabilities				
Amount due to a director	N/A	<u>1,260</u>	<u>1,260</u>	<u>1,260</u>
At 30 September 2014				
Non-derivative financial liabilities				
Amount due to a director	N/A	<u>1,269</u>	<u>1,269</u>	<u>1,269</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET COMPANY

(c) Fair value measurement

Financial instruments are carried at fair value, by valuation method. The different levels have been defined as follows:

- a. Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- b. Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- c. Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

At 31 December 2013 and 30 September 2014, the Target Company did not have any financial assets and liabilities that are measured at the above fair value measurements hierarchy.

There were no significant transfers of financial assets between level 1 and level 2 and no transfers into or out of level 3.

7. REVENUE

Since the Target Company has not carried on any business during the Relevant Periods, there was no revenue recognised.

8. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax has been made as the Target Company had no assessable profits arising in Hong Kong during the Relevant Periods.

The income tax expense for the Relevant Periods can be reconciled to the loss before tax per the statements of profit or loss and other comprehensive income as follows:

	Period from 11 July 2013 (date of incorporation) to 31 December 2013 HK\$'000	Period from 11 July 2013 (date of incorporation) to 30 September 2013 HK\$'000 (Unaudited)	Nine months ended 30 September 2014 HK\$'000
Loss before tax	<u>(10)</u>	<u>(10)</u>	<u>(9)</u>
Tax calculated at Hong Kong profit tax rate @16.5%	(2)	(2)	(2)
Tax effect of expenses not deductible for tax purpose	<u>2</u>	<u>2</u>	<u>2</u>
Income tax expense for the Relevant Periods	<u>—</u>	<u>—</u>	<u>—</u>

No deferred tax assets and liabilities have been recognised in the Financial Information as the Target Company did not have material temporary difference arising between the tax bases of assets and liabilities and their carrying amounts for the Relevant Periods.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET COMPANY

9. LOSS FOR THE RELEVANT PERIODS

Loss for the Relevant Periods has been arrived at after charging:

	Period from 11 July 2013 (date of incorporation) to 31 December 2013 HK\$'000	Period from 11 July 2013 (date of incorporation) to 30 September 2013 HK\$'000 (Unaudited)	Nine months ended 30 September 2014 HK\$'000
Auditors' remuneration	—	—	—
Director's remuneration			
– Fee	—	—	—
– Other remuneration	—	—	—
Preliminary expenses	3	3	—
	<u>3</u>	<u>3</u>	<u>—</u>

10. DIRECTOR'S EMOLUMENTS

Mr. Sin Kwok Lam, the sole director of the Target Company throughout the Relevant Periods, did not receive nor waive any fees or emoluments in respect of his services to the Target Company during the Relevant Periods.

11. LOSS PER SHARE

No loss per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful.

12. AMOUNT DUE TO A DIRECTOR

The amount due is unsecured, non-interest-bearing and repayable on demand.

13. SHARE CAPITAL

	As at 31 December 2013 HK\$'000 (Note (i))	As at 30 September 2014 HK\$'000 (Note (ii))
Aurthorised:		
10,000 ordinary shares of \$1 each	10	—
	<u>10</u>	<u>—</u>
Issued and fully paid:		
100 ordinary share of \$1 each	—	—
	<u>—</u>	<u>—</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET COMPANY

Notes:

- (i) The Target Company was incorporated with an initial authorised share capital of \$10,000 divided into 10,000 ordinary shares of \$1 each. On 11 July 2013 (date of incorporation), the Company issued 100 ordinary share of \$1 each at par for cash.
- (ii) Under the Hong Kong Companies Ordinance (Cap. 622), which commenced operation on 3 March 2014, the concept of authorised share capital no longer exists.

In accordance with section 135 of the Hong Kong Company Ordinance (Cap. 622), the Target Company's shares no longer have a par or nominal value with effect from 3 March 2014. There is no impact on the number of shares in issue or the relative entitlement of any of the members as a result of this transaction.

14. OPERATING LEASE COMMITMENTS

The Target Company as lessee

At the end of the Relevant Periods, the Target Company had commitments for future minimum lease payments under non-cancellable operating leases which approximately fall due as follows:

	As at 31 December 2013 HK\$ '000	As at 30 September 2014 HK\$ '000
Within one year	—	—
In the second to fifth years inclusive	15,793	19,974
Over five years	72,945	68,764
	<u>88,738</u>	<u>88,738</u>

Operating lease payments represent rentals and management fee payable by the Target Company in respect of rented premises. Leases are negotiated for terms of 18.5 years and rentals increase 5% every 5 years over the lease periods, with an option to extend for a further 20 years. The operating lease contract contains market review clauses in the event that the Target Company exercises its option to renew. The Target Company does not have an option to purchase the leased asset at the expiry of the lease period.

15. RELATED PARTY TRANSACTIONS

Other than the balances with related parties as disclosed elsewhere in the Financial Information, the Target Company did not enter into any other significant related party transactions during the Relevant Periods.

Compensation to key management personnel

The director of the Target Company consider that they are the only key management personnel of the Target Company. No emolument was paid or payable to the director of the Target Company during the period ended 31 December 2013 and for the nine months ended 30 September 2014.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET COMPANY

B. EVENTS AFTER THE REPORTING PERIOD

Save as disclosed elsewhere in the Financial Information, no other significant event took place subsequent to 30 September 2014.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target Company have been prepared in respect of any period subsequent to 30 September 2014.

Yours faithfully,
HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Hui Chun Keung, David
Practising Certificate Number: P05447
Hong Kong

2. MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET COMPANY

Set out below is the management discussion and analysis of the Target Company for the period from the date of incorporation of the Target Company to 31 December 2013 and the nine months ended 30 September 2014 (the “Relevant Periods”). The following financial information is based on the financial information of the Target Company as set out in Appendix II to this circular.

Business and financial review

The Target Company was incorporated in 2013 and had since been dormant before entering into of Lease Agreement. The Target Company has not yet commenced business operation, other than entering into of the Lease Agreement in respect of the Lands since its incorporation.

There were no revenue recorded for the Target Company during the Relevant Periods. For the period from the date of incorporation of the Target Company to 31 December 2013 and the nine months ended 30 September 2014, the unaudited loss of Target Company was HK\$9,900 and HK\$9,250 respectively. The loss was mainly resulted from the administrative expenses incurred.

Liquidity, financial resources and capital structure

The Target Company had no bank and other borrowings and had not charged on any of its assets during the Relevant Periods. The gearing ratio of each of the Target Company, calculated by dividing its total borrowings by its shareholders fund was nil as at 31 December 2013 and 30 September 2014. As at 31 December 2013 and 30 September 2014, the audited net liabilities of the Target Company was HK\$9,800 and HK\$19,050 respectively.

Capital structure

As at 30 September 2014, the issued share capital of the Target Company was HK\$100 comprised one Hundred issued and fully paid ordinary share of HK\$1 each.

Significant investment, material acquisition and disposals

The Target Company had no significant investment and material acquisition and disposal of subsidiaries and associates during the Relevant Periods.

Employee information

As at 31 December 2013 and 30 September 2014, the Target Company did not have any employee and no remuneration expenses were incurred for the Relevant Periods.

Exposure to exchange rate

The reporting currency of the Target Company is HK\$, while the transactional currency is also in HK\$. Accordingly, the Target Company is not subject to any exchange rate risk.

Segment information

During the Relevant Periods, no operation was conducted and accordingly no segment information has been disclosed.

Contingent liabilities

The Target Company did not have any significant contingent liabilities as at 31 December 2013 and 30 September 2014.

Future plans

As at the Latest Practicable Date, there are no proposed material investments of the Target Company.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Capitalised terms used herein shall have the same meanings as those defined in this Circular, unless the context requires otherwise.

The accompanying unaudited pro forma consolidated statement of financial position of the Enlarged Group (the “Unaudited Pro Forma Financial Information”) has been prepared by the directors (the “Director”) of National Arts Entertainment and Culture Group Limited (the “Company”) to illustrate the effect of the acquisition of the entire issued share capital of Lux Unicorn Limited (the “Target Company”) and the Loan (the “Acquisition”).

The Unaudited Pro Forma Financial Information has been prepared as if the Acquisition had been completed on 30 June 2014 and is based on (i) the unaudited consolidated statement of financial position of the Group as at 30 June 2014 as extracted from the interim report of the Group for the six months ended 30 June 2014; (ii) the audited statement of financial position of the Target Company as at 30 September 2014 as set out in Appendix II to this circular, after marking after making pro forma adjustments that are (a) directly attributable to the Acquisition and not relating to future events or decisions; and (b) factually supportable.

This Unaudited Pro Forma Financial Information has been prepared by the Directors for illustrative purposes only and is based on a number of assumptions, estimates, uncertainties and current available information. Because of its hypothetical nature, the Unaudited Pro Forma Financial Information may not give a true picture of the financial position of the Enlarged Group that would have been attained had the completion actually occurred on the dates indicated therein where applicable, or any future dates.

APPENDIX III
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

	The Group as at 30 June 2014 <i>HK\$'000</i> (Unaudited)	The Target Company as at 30 September 2014 <i>HK\$'000</i> (Audited)	Pro forma adjustments <i>HK\$'000</i>	<i>Notes</i>	Pro forma Enlarged Group <i>HK\$'000</i> (Unaudited)
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	805,819	—			805,819
Investment properties	735,719	—			735,719
Land lease prepayments	81,385	—	397,519	4	478,904
Investment in joint venture	8,552	—			8,552
Other receivables	98,490	—			98,490
	<u>1,729,965</u>	<u>—</u>			<u>2,127,484</u>
Current assets					
Film production in progress	11,994	—			11,994
Film right	6,721	—			6,721
Trade receivables	3,629	—			3,629
Inventories	1,260	—			1,260
Prepayment, deposit and other receivable	14,990	1,250			16,240
Cash and cash equivalents	<u>1,872</u>	<u>—</u>	(1,100)	6	<u>772</u>
	<u>40,466</u>	<u>1,250</u>			<u>40,616</u>
Current liabilities					
Trade payables	56	—			56
Other payables and accruals	219,760	—			219,760
Loan from a director	19,304	—			19,304
Loan from a related party	12,400	—			12,400
Amount due to a director	—	1,269	(1,269)	3	—
Borrowings	265,588	—			265,588
Provision for income tax	<u>2,951</u>	<u>—</u>			<u>2,951</u>
	<u>520,059</u>	<u>1,269</u>			<u>520,059</u>
Net current liabilities	<u>(479,593)</u>	<u>(19)</u>			<u>(479,443)</u>
Total assets less current liabilities	<u>1,250,372</u>	<u>(19)</u>			<u>1,648,041</u>

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

	The Group as at 30 June 2014 <i>HK\$'000</i> (Unaudited)	The Target Company as at 30 September 2014 <i>HK\$'000</i> (Audited)	Pro forma adjustments <i>HK\$'000</i>	Notes	Pro forma Enlarged Group <i>HK\$'000</i> (Unaudited)
Non-current liabilities					
Bonds	73,928	–			73,928
Convertible bonds	393,777	–	293,261	3	687,038
Finance lease obligation	18,862	–			18,862
Deferred tax liabilities	125,727	–			125,727
Promissory Notes	–	–	94,098	3	94,098
	<u>612,294</u>	<u>–</u>			<u>999,653</u>
Net assets/(liabilities)	<u><u>638,078</u></u>	<u><u>(19)</u></u>			<u><u>648,388</u></u>
EQUITY					
Equity attributable to owners of the Company					
Share Capital	41,262	–			41,262
Reserves	<u>596,816</u>	<u>(19)</u>	10,329	5	<u>607,126</u>
Total equity	<u><u>638,078</u></u>	<u><u>(19)</u></u>			<u><u>648,388</u></u>

Notes to the Unaudited Pro Forma Financial Information:

1. The balances have been extracted from the unaudited consolidated statement of financial position of the Group as at 30 June 2014 as set out in the interim report of the Company for the six months ended 30 June 2014.
2. The balances have been extracted from the audited statement of financial position of the Target Company as at 30 September 2014 as set out in Appendix II to this Circular. The Target Company had a capital deficiency of approximately HK\$19,000 as at 30 September 2014. This matter, along with the going concern matter as stated in Appendix II to this circular, indicate the existence of a material uncertainty which may cast significant doubt on the Target Company's ability to continue as a going concern. The Unaudited Pro Forma Financial Information has been prepared in conformity with the principles applicable to a going concern basis.
3. The adjustments represent consideration payable by the Group with respect to the Acquisition. Pursuant to the Sales and Purchase Agreement dated 22 December 2014 (the "Agreement"), the maximum Consideration payable for the Acquisition is HK\$400,000,000. The Parties agree that the Consideration shall be settled in the following manner:
 - (a) as to HK\$80,000,000, which shall be satisfied by issuance of the Promissory Note 1 ("PN1") to the Vendor or its nominee on Completion;
 - (b) as to HK\$300,000,000, by the issuance of the Convertible Bond ("CB") in the principal amount of HK\$300,000,000 to the Vendor or its nominee on Completion; and
 - (c) provided that the land use rights certificate in relation to the No-Certificate Land having been obtained to the satisfaction of the Group, as to the balance of HK\$20,000,000 by the issuance of the Promissory Note 2 ("PN2") to the Vendor or its nominee on the date of confirmation by the Purchaser that such certificate having been obtained to its satisfaction.

Adjustments to the consideration

Pursuant to the Agreement, the Consideration shall be adjusted downwards under the following circumstances:

- (a) In the event that Rental Saving confirmed in the valuation report is less than RMB318,000,000, (equivalent to HK\$397,500,000) the Consideration shall be adjusted by reducing therefrom an amount equal to the difference between the Guaranteed Value and the Rental Saving. Adjustments to the Consideration shall be made way of reducing the principal amount of the PN1.

The amounts presented in the valuation report are converted into Hong Kong dollars at an exchange rate of RMB1 to HK\$1.25. No representation is made that Renminbi amounts have been, could have been or could be translated to Hong Kong dollar amounts, or vice versa, at that rate or at any other rates or at all.

- (b) In the event that the land use rights certificate in relation to the use of the No-Certificate Land have not been obtained on or before 31 December 2015, the Consideration shall be adjusted by reducing therefrom an amount of HK\$20,000,000, and in such event, PN2 shall not be required to be issued.

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

For the purpose of preparation of the Unaudited Pro Forma Financial Information, the Directors have assumed that the valuation report is not less than RMB318,000,000 (equivalent to HK\$397,500,000) and the land use rights certificate of the No-Certificate Land will be obtained.

For the purpose of the Unaudited Pro Forma Financial Information, it is further assumed that the amount of approximately HK\$398,769,000 (i.e. the sum of the amount of the Loan and Rental Saving of the Land) have taken to be its fair value of the Consideration at the date of completion.

An analysis of the total estimated cost of the Acquisition assuming the Acquisition had taken place on 30 June 2014 is set out as follows:

	Face value HK\$ '000	Fair value as at 30 June 2014 HK\$ '000
Consideration:		
– CB (Note a)	300,000	304,671
– PN1 (Note b)	80,000	75,278
– PN2 (Note b)	20,000	18,820
	<u>400,000</u>	<u>398,769</u>

Notes:

- (a) Pursuant to the Agreement, the Company has agreed to issues CB with principal amount of HK\$300,000,000 to Vendor or its nominee. CB bears interest at 9% per annum (calculated 365 days basis) on the principal amount of CB outstanding from time to time, payable annually in arrear. CB can be converted into conversion shares at initial conversion price of HK\$0.18, which is subject to anti-dilution adjustments, from the business day immediately following the date of the issue of CB to the maturity date.

The bondholder shall be entitled to request the Company to pay interest to it under the provisions of the CB by way of allotment and issuance of Interest Conversion Shares at the due day of the interest payment in lieu of payment by cash by giving not less than seven Business Days' written notice prior to the due date for payment of interest.

For the purpose of the preparation of this Unaudited Pro Forma Financial Information, the Company has engaged Roma Appraisal Limited ("Roma"), an independent firm of qualified professional valuer, to perform a valuation on the fair value of the liability component of CB as at 30 June 2014.

Based on the assessment of the Company, Roma is principally engaged in the provision of valuation and technical advisory services in Hong Kong under the brand "Roma" with principal clients being companies listed on the Stock Exchange. It is believed that Roma are competent and experienced in financial instrument valuations and is qualified in valuing the CB.

The fair value of the liability component of approximately HK\$293,261,000 is estimated by discounting the estimated contractual cash flows over the remaining contractual term of CB at the interest rate that is appropriate to the riskiness of CB at discount rate at 9.901%.

The discount rate of 9.901% was based on (i) the risk free rate of 0.767%, (ii) spread of comparable bonds of 9.134%. Risk free rate is determined with reference to the market yields of Hong Kong Government Bonds with maturities similar to the CB as at 30 June 2014 as extracted from Bloomberg. The spread of comparable bonds is determined with reference to the option-adjusted spreads of comparable bonds as extracted from Bloomberg. The comparable bonds were selected mainly with reference to the following selection criteria: (i) their issuers were mainly engaged in entertainment and media industries, (ii) maturity dates were close to the maturity date of the CB, (iii) their issuers have similar in S&P credit ratings as the Company which was "Below B".

The residual amount of approximately HK\$11,410,000 is assigned as the equity component and is included in reserves. The issue of CB is non-cash transaction. On Completion, the fair value of CB will have to be reassessed as at the date of Completion.

- (b) For the purpose of this Unaudited Pro Forma Financial Information, the Company has engaged Roma to perform a valuation on the fair values of PN1 and PN2 as at 30 June 2014. The fair values of PN1 and PN2 are estimated to be approximately HK\$75,278,000 and HK\$18,820,000. The valuation of PN1 and PN2 has been undertaken by discounting the contractual cash flows over the contractual term of the PN1 and PN2 at the discount rates ranging from 10.820% to 11.474%, that were appropriate to the riskiness of PN1 and PN2, with reference to the prevailing market rates. The fair values of PN1 and PN2 will have to be reassessed as at the dates of issuance.

4. The adjustment reflects the elimination of (i) the pre-acquisition capital and reserves of the Target Company, (ii) the acquisition of the Loan, and (iii) the allocation of the remaining Consideration of approximately HK\$397,519,000 to land lease prepayments, which has been calculated as follows:

	<i>HK\$'000</i>
Fair value of consideration (<i>see Note 3</i>)	398,769
The Loan acquired	(1,269)
Carrying amount of net liabilities acquired	19
	<hr/>
Adjustment to land lease prepayments	397,519
	<hr/> <hr/>

The land lease prepayments are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on the straight-line method over the period of the relevant term of lease (i.e. 38.5 years).

For the purpose of the Unaudited Pro Forma Financial Information, it is assumed that the fair value of the identifiable assets and liabilities to be the carrying amounts of the asset and liabilities of the Target Company as at 30 September 2014, and accordingly, the possible changes to the fair value of assets and liabilities of the Target Company is not reflected in this Unaudited Pro Forma Financial Information.

5. The adjustments are to reflect the effect on reserves arising from the Acquisitions:

	<i>HK\$'000</i>
Elimination of the pre-acquisition reserves of the Target Company	19
Add: Premium arising from issuance of CB	11,410
Add: Direct costs incurred in relation to the Acquisition (<i>See Note 6</i>)	(1,100)
	<hr/>
	10,329
	<hr/> <hr/>

6. The adjustment represents the payment of the estimated transaction cost attributable to the Acquisition of approximately HK\$1,100,000.
7. Save as set out above, the Unaudited Pro Forma Financial Information does not take into account any trading results or other transactions of the Group and the Target Company subsequent to the date of the financial statements included in the Unaudited Pro Forma Financial Information.

**B. REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF
THE ENLARGED GROUP**

The following is the text of a report received from the reporting accountants of the Company, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this circular.



國 衛 會 計 師 事 務 所 有 限 公 司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

23 March 2015

**NDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED
GROUP****TO THE DIRECTORS OF NATIONAL ARTS ENTERTAINMENT AND CULTURE
GROUP LIMITED**

We have completed our assurance engagement to report on the compilation of pro forma financial information of National Arts Entertainment And Culture Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of financial position of the Enlarged Group (the "Unaudited Pro Forma Financial Information") and related notes as set out in Section A entitled "Unaudited Pro Forma Financial Information of the Enlarged Group" in Appendix III to the circular issued by the Company dated 23 March 2015 (the "Circular"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in Section A of Appendix III.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed acquisition of the entire equity issued share capital of Lux Unicorn Limited (the "Target Company"), a company incorporated in Hong Kong, on the Group's financial position as at 30 June 2014 as if the transaction had taken place as at 30 June 2014. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2014, on which an interim report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the GEM Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the GEM Listing Rules and with reference to AG7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2014 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect of those criteria; and
- the Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

Yours faithfully,
HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Hui Chun Keung, David
Practising Certificate Number: P05447
Hong Kong

The following is the text of a letter and valuation certificate, prepared for the purpose of incorporation in this circular received from RHL Appraisal Limited., an independent valuer, in connection with its valuation as at 16th March 2015 of the property to be acquired by National Arts Entertainment and Culture Group Limited.



永利行評值顧問有限公司
RHL Appraisal Limited
Corporate Valuation & Advisory

T +852 2730 6212
F +852 2736 9284

Room 1010, 10/F, Star House,
Tsimshatsui, Hong Kong

23 March 2015

The Board of Directors
National Arts Entertainment and Culture Group Limited
Unit B, 2/F., Jone Mult Factory Building,
No. 169 Wai Yip Street,
Kwun Tong, Kowloon,
Hong Kong

Dear Sirs/Madam,

INSTRUCTIONS

We refer to your instruction for us to value the property interests (the “Property”) to be acquired by National Arts Entertainment and Culture Group Limited (the “Company”) or its subsidiaries (together referred as the “Group”) located in the People’s Republic of China (the “PRC”). We confirm that we have carried out property inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the such property interests as at 16th March 2015 (the “Valuation Date”).

This letter which forms part of our valuation report explains the basis and methodologies of valuation, clarifying assumptions, valuation considerations, title investigations and limiting conditions of this valuation.

BASIS OF VALUATION

The valuation is our opinion of the market value (“Market Value”) which we would define as intended to mean the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably prudently and without compulsion.

Market Value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase and without offset for any associated taxes or potential taxes.

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, joint ventures, management agreements, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

VALUATION METHODOLOGY

We have assigned no commercial value to the property because as stipulated in the tenancy agreement the property interests is not freely transferable in current status.

VALUATION CONSIDERATIONS

In valuing the Property, we have complied with all the requirements contained in Chapter 8 to the Rules Governing the Listing of Securities on the Growth Enterprise Market issued by The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards 2012 Edition.

VALUATION ASSUMPTION

In our valuation, unless otherwise stated, we have assumed that:

- a. transferable land use rights in respect of the Property for specific term at nominal annual land use fee have been granted and that any premium payable has already been fully paid;
- b. the owners of the Property has enforceable titles to the Property and have free and uninterrupted right to use, occupy, assign, lease and sub-lease the Property for the whole of the respective unexpired terms as granted;

- c. no deleterious or hazardous materials or techniques have been used in the construction of the Property;
- d. the Property is connected to main services and sewers which are available on normal terms; and
- e. in valuing the Property which is currently under construction, we have assumed that they will be developed and completed in accordance with the Company's latest development proposal provided to us.

Other special assumptions of the Property, if any, have been stated in the footnote of the valuation certificate of the Property.

TITLE INVESTIGATION

We have been shown copies of various documents relating to the Property. However, we have not examined the original documents to verify the existing titles to the property interests or any amendment which does not appear on the copies handed to us. We have relied considerably on the information given by the Group's PRC legal advisers, Beijing Yingke Law Firm Guangzhou Office (北京市盈科(廣州)律師事務所), concerning the validity of the title to the property interests.

LIMITING CONDITIONS

We have inspected the Property. During the course of our inspection, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report whether the Property is free from rot infestation or any other defects. No tests were carried out on any of the services. Moreover, we have not carried out investigations on site to determine the suitability of the ground conditions and the services etc., for any future development. Our valuation is prepared on the assumption that these aspects are satisfactory and no extraordinary expenses or delay will be incurred during the development period.

We have not carried out detailed on-site measurement to verify the correctness of the areas in respect of the Property but have assumed that the areas shown on the documents handed to us are correct. All dimensions, measurements and areas are approximate.

No allowance has been made in our valuation report for any outstanding or additional land premium, charges, mortgages, comprehensive infrastructure provision fee, resettlement compensation or amounts owing on the Property nor for expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

Unless otherwise stated, we have valued the Property in its existing state as at the Valuation Date and the study of possible alternative development options and the related economics do not come with the scope of this report.

We have relied to a considerable extent on information provided by the Group and accepted advices given to us on such matters, in particular, but not limited to tenure, planning approvals, statutory notices, easements, particulars of occupancy, size and floor areas and all other relevant matters in the identification of the Property.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also been advised by the Group that no material fact has been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

We do not accept a liability for any interpretation which we have placed on such information which is more properly the sphere of the legal advisers of the Group. Neither have we verified the correctness of any information supplied to us concerning the Property.

This report is for the exclusive use of the addressee stated herein and for that particular purpose only. The contents of this report either in whole or in part shall not be disclosed to any other parties and we accept no responsibility if it is used or relied upon by any others or for purposes other than that stated herein. Neither the whole nor any part of this report or any reference thereto may be included in any published documents, circular or statement nor published in any way without our written approval or the form and context in which it may appear.

REMARKS

We have valued the Property in Renmibi (RMB).

We have conducted on-site inspection to the Property in 28th June 2014 by Serena S. W. Lau and in 31st October 2014 by Mr. Christopher Cheung (BBA).

We enclose herewith the valuation certificate.

Yours faithfully,
For and on behalf of
RHL Appraisal Ltd.

Serena S. W. Lau
FHKIS, AAPI, MRICS, RPS(GP), MBA(HKU)
Managing Director

Ms. Serena S. W. Lau is a Registered Professional Surveyor (GP) with over 19 years' experience in valuation of properties in HKSAR, Macau SAR, mainland China and the Asia Pacific Region. Ms. Lau is a Professional Member of The Royal Institution of Chartered Surveyors, an Associate of Australian Property Institute, a Fellow of The Hong Kong Institute of Surveyors as well as a registered real estate appraiser in the PRC.

Property to be acquired by the Group for future development in the PRC

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 16th March 2015 RMB
<p>Parcels of land (Lot nos. 440605004017JB03355, 440605004017JB03362, 440605004017JB03347, 440605004017JB03350, 440605004017JB03348, 440605004017JB03352, 440605004017JB03351, 440605004017JB03353, 440605004017JB03356) and parcels of land occupied by gas station and covered by the river located close to Huanshan Road, Xiqiao Town, Nanhai District, Foshan City, Guangdong Province, the PRC</p>	<p>The property comprises parcels of land with a total site area of approximately 368.33 mu (245,553.33 sq.m.), of which approximately 14.2 mu (9,466.67 sq.m.) and 30.8163 mu (20,544.20 sq.m.) of land area are currently occupied by a gas station and covered by river respectively.</p> <p>According to the Group's development proposal, the property will be developed into film production studio and tourism facilities.</p> <p>The property is sub-leased to Lux Unicorn Limited (盛麟有限公司) from Xiaiqoshan Company (佛山市南海區西樵山森林公園物資公司) for a term commencing on 1st November 2013 to 31st March 2031 and renewal for a term of 20 years up to 31st March 2051 for operation of the film production studio and tourism business.</p>	<p>The property is vacant and pending for development.</p>	<p>No commercial value</p> <p><i>(Please refer to Note 5 below for details)</i></p>
	<p><i>(Please refer to Note 2, 3 and 4 below for tenancy details.)</i></p>		

Notes:

1. Pursuant to nine Collectively-owned Land Use Rights Certificates registered by the People's Government of Nanhai District in Foshan City (佛山市南海區人民政府), the land use right of the land with a total site area of approximately 323.3137 mu (215,542.46 sq.m.) were allocated to various parties for retail, hostel, finance and other commercial uses. The details of which are as follows:

Collectively-owned Land Use Rights Certificate Nos.	Site Area		Parties
	(mu)	(sq.m.)	
Nan Fu Ji Yong (2014) Di 0401036 Hao (南府集用(2014)第0401036號)	38.8524	25,901.60	佛山市南海區西樵鎮儒溪村趙家股份合作經濟社 (Foshan City Nanhai District Xiqiao Town Ruxi Village Zhaojia Joint-Equity Economic Cooperative)
			佛山市南海區西樵鎮儒溪村大街股份合作經濟社 (Foshan City Nanhai District Xiqiao Town Ruxi Village Dajie Joint-Equity Economic Cooperative)
			佛山市南海區西樵鎮儒溪村南社股份合作經濟社 (Foshan City Nanhai District Xiqiao Town Ruxi Village Nanshe Joint-Equity Economic Cooperative)
Nan Fu Ji Yong (2014) Di 0401177 Hao (南府集用(2014)第0401177號)	36.7191	24,479.40	佛山市南海區西樵鎮儒溪村東社股份合作經濟社 (Foshan City Nanhai District Xiqiao Town Ruxi Village Dongshe Joint-Equity Economic Cooperative)
Nan Fu Ji Yong (2014) Di 0401038 Hao (南府集用(2014)第0401038號)	17.0607	11,373.80	佛山市南海區西樵鎮儒溪村南社股份合作經濟社 (Foshan City Nanhai District Xiqiao Town Ruxi Village Nanshe Joint-Equity Economic Cooperative)
Nan Fu Ji Yong (2014) Di 0401039 Hao (南府集用(2014)第0401039號)	0.6196	413.06	佛山市南海區西樵鎮儒溪村趙家股份合作經濟社 (Foshan City Nanhai District Xiqiao Town Ruxi Village Zhaojia Joint-Equity Economic Cooperative)
Nan Fu Ji Yong (2014) Di 0401040 Hao (南府集用(2014)第0401040號)	59.8221	39,881.40	佛山市南海區西樵鎮儒溪村趙家股份合作經濟社 (Foshan City Nanhai District Xiqiao Town Ruxi Village Zhaojia Joint-Equity Economic Cooperative)
Nan Fu Ji Yong (2014) Di 0401042 Hao (南府集用(2014)第0401042號)	128.7105	85,807.00	佛山市南海區西樵鎮儒溪村南社股份合作經濟社 (Foshan City Nanhai District Xiqiao Town Ruxi Village Nanshe Joint-Equity Economic Cooperative)

Collectively-owned Land Use Rights Certificate Nos.	Site Area		Parties
	(mu)	(sq.m.)	
Nan Fu Ji Yong (2014) Di 0401044 Hao (南府集用(2014)第0401044號)	23.2428	15,495.20	佛山市南海區西樵鎮儒溪村大街股份合作經濟社 (Foshan City Nanhai District Xiqiao Town Ruxi Village Dajie Joint-Equity Economic Cooperative)
Nan Fu Ji Yong (2014) Di 0401045 Hao (南府集用(2014)第0401045號)	17.2302	11,486.80	佛山市南海區西樵鎮儒溪村大街股份合作經濟社 (Foshan City Nanhai District Xiqiao Town Ruxi Village Dajie Joint-Equity Economic Cooperative)
Total	323.3137	215,542.46	

2. Pursuant to a 影視項目儒溪土地租賃合同 (thereafter referred as the “Lease Agreement”) entered into between Xiaiqoshan Company (佛山市南海區西樵山森林公園物資公司) and Lux Unicorn Limited (盛麟有限公司) dated 1st November 2013, portion of the Property with a site area of approximately 323.3137 mu (215,542.46 sq.m.) was leased to Lux Unicorn Limited for a term commencing on 1st November 2013 to 31st March 2031 and is renewable for a further term of 20 years up to 31st March 2051. The details of which are as follows:

Lease Terms	Tenancy details
Commencing on 1st November 2013 to 31st March 2031, and onwards up to 31st March 2051 subject to the condition of renewal as stipulated in the lease	<ol style="list-style-type: none"> Annual rental of RMB 3,879,764 subject to a 5% increment on the rental based on previous term for every five years; Commencement date of rent payment shall be on or before 1 March 2015; and One year rent free period from the commencement date of rent payment as stated above.

3. Pursuant to a 影視項目儒溪土地租賃合同增加租賃面積補充協議 (thereafter referred as the “Supplementary Lease Agreement (I)”) entered into between Xiaiqoshan Company (佛山市南海區西樵山森林公園物資公司) and Lux Unicorn Limited (盛麟有限公司) dated 3rd November 2013, portion of the Property with a total site area of approximately 45.016 mu (30,010.87 sq.m.) was leased to Lux Unicorn Limited (盛麟有限公司) for a term commencing on 1st November 2013 to 31st March 2031 and is renewable for a further term of 20 years up to 31st March 2051. The details of which are as follows:

Portion of the Property	Site Area	Tenancy details	Remarks
Land occupied by gas station (氣站土地)	14.2 mu (9,466.67 sq.m.)	<ol style="list-style-type: none"> Annual rental of RMB170,400 subject to a 5% increment on the rental based on previous term for every five years. One year rent free period after commencement date of rent payment. 	This lease is enforceable upon Xiaiqoshan Company (佛山市南海區西樵山森林公園物資公司) has obtained the leasehold and subleasehold interests of this portion of the land and delivery to Lux Unicorn Limited (盛麟有限公司) on or before 1st March 2015.
Land covered by the river (水流土地)	30.8163 mu (20,544.20 sq.m.)	N/A	N/A
Total	45.0163 mu (30,010.87 sq.m.)		

4. Pursuant to a 影視項目儒溪土地租賃合同租賃合同補充協議 (thereafter referred as the “Supplementary Lease Agreement (II)”) entered into between Xiaiqoshan Company (佛山市南海區西樵山森林公園物資公司) and Lux Unicorn Limited (盛麟有限公司) dated 5th November 2013, Lux Unicorn Limited (盛麟有限公司) is contracted to pay to Xiaiqoshan Company (佛山市南海區西樵山森林公園物資公司) an annual management fee of RMB369,792 from the commencement date of rent payment up to the expiring term of the Lease Agreement subject to a 5% increment on the rental based on previous term for every five years.
5. We have assigned no commercial value to the property because as stipulated in the tenancy agreement the property interests is not freely transferable in current status.
6. For reference purpose, we have assessed a Rental Saving of the Property to the Group. The Rental Saving of the Property is assessed by capitalizing the profit rent during the residual term of the lease to arrive at an aggregated amount. A profit rent exists when the tenant is making a saving because the contractual rent to be paid is less than the fair market rental value. the aggregated rental of the Property saving to the Group within lease term commencing on 1st November 2013 to 31st March 2051 (including the renewal term commencing on 1st April 2031 to 31st March 2051) would be RMB318,000,000 as at the Valuation Date based on the following assumptions. This valuation figure does not represent the market value of the Property but is merely for indicative purposes only.
 - i. the Lease Agreement, Supplementary Lease Agreement (I) and Supplementary Lease Agreement (II) are legal, valid and enforceable;
 - ii. subject to the written consent from and without any additional payment to Xiaiqoshan Company (佛山市南海區西樵山森林公園物資公司), Lux Unicorn Limited (盛麟有限公司) is entitled to sub-lease the Property to third parties for operation of the film production studio and tourism business during the duration of the lease, including the renewal term;
 - iii. Lux Unicorn Limited (盛麟有限公司) is legally entitled to use the land with site area of 30.8163 mu (20,544.20 sq.m.) which is covered by river under the Supplementary Lease Agreement (I);
 - iv. Lux Unicorn Limited (盛麟有限公司) is legally entitled to use and sub-lease the land with site area of 14.2 mu (9,466.67 sq.m) which is occupied by gas station upon Xiaiqoshan Company (佛山市南海區西樵山森林公園物資公司) has obtained this portion of the land use rights of usage and sub-lease under the Supplementary Lease Agreement (I);
 - v. there is no resumption and acquisition conducted by the government during the duration of the lease term, including the renewal term;
 - vi. there are no material encumbrances affecting the value of the Property;
 - vii. the Rental Saving of the Property is assessed based on a site area of 337.5137 mu (225,009.13 sq.m.), which is excluding a land covered by the river with a site area of 30.8163 mu (20,544.20 sq.m.); and
 - viii. In our assessment, with the consideration of the plot ratio usually adopted in the nearby locality with similar land users, a plot ratio of 0.8 is assumed and the future market rent will adjust in line with the percentage of increment as stipulated in the Lease Agreement, Supplementary Lease Agreement (I) and Supplementary Lease Agreement (II).
7. We have assessed the current market rent with reference to land transactions which are within the same locality, similar and relevant users and transacted within six months period. It is our opinion that the annual current market rent is approximately RMB 30,240,000 based on the site area in Note 6 (vii).
8. We have derived a capitalization rate of 8.1% with reference to property yields of property transactions in the same locality and cross reference with cost of capital of companies which operating studio, film and media production services which are similar to the business of the Company.
9. Lux Unicorn Limited (盛麟有限公司) is a wholly owned by the Mr. Sin Kwok Lam, a non-executive Director and Chairman and a substantial shareholder of the Company.

10. We have been provided with a legal opinion regarding the property interests by the Group's PRC legal adviser, Beijing Yingke Law Firm Guangzhou Office (北京市盈科(廣州)律師事務所), regarding the legal title of the Property, which contains, inter alia, the followings:
- i. Xiaiqoshan Company (佛山市南海區西樵山森林公園物資公司) has obtained the consent from 佛山市南海區西樵鎮儒溪村東社股份合作經濟社 (Foshan City Nanhai District Xiqiao Town Ruxi Village Dongshe Joint-Equity Economic Cooperative), 佛山市南海區西樵鎮儒溪村南社股份合作經濟社 (Foshan City Nanhai District Xiqiao Town Ruxi Village Nanshe Joint-Equity Economic Cooperative), 佛山市南海區西樵鎮儒溪村趙家股份合作經濟社 (Foshan City Nanhai District Xiqiao Town Ruxi Village Zhaojia Joint-Equity Economic Cooperative), 佛山市南海區西樵鎮儒溪村大街股份合作經濟社 (Foshan City Nanhai District Xiqiao Town Ruxi Village Dajie Joint-Equity Economic Cooperative) to sub-lease the portion of the Property with site area of 323.3137 mu (215,542.46 sq.m.);
 - ii. The Lease Agreement, Supplementary Lease Agreement (I) and Supplementary Lease Agreement (II) entered into between Xiaiqoshan Company (佛山市南海區西樵山森林公園物資公司) and Lux Unicorn Limited (盛麟有限公司) are legal, valid and enforceable;
 - iii. Subject to the written consent from Xiaiqoshan Company (佛山市南海區西樵山森林公園物資公司), Lux Unicorn Limited (盛麟有限公司) is entitled to sub-lease the Property to third parties for operation of the film production studio and tourism business during the duration of the lease, including renewal term;
 - iv. Subject to the operation of the film production studio and tourism business, Lux Unicorn Limited (盛麟有限公司) is entitled to sub-lease the whole or the part of the Property to third parties for commercial use and other ancillary uses;
 - v. Lux Unicorn Limited (盛麟有限公司) is legally to use the land with site area of 30.8163 mu (20,544.20 sq.m.) which is covered by river under the Supplementary Lease Agreement (I); and
 - vi. Lux Unicorn Limited (盛麟有限公司) is legally to use and sub-lease the land with site area of 14.2 mu (9,466.67 sq.m.) which is occupied by gas station upon Xiaiqoshan Company (佛山市南海區西樵山森林公園物資公司) has obtained the leasehold and subleasehold interests of this portion of the land under the Supplementary Lease Agreement (I).

1. RESPONSIBILITY STATEMENT

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

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and upon full conversion of the Convertible Bonds and full issue of the Interest Conversion Shares at the initial Conversion Price and Interest Conversion Price respectively were as follows:

<i>Authorised share capital</i>		<i>HK\$</i>
<u>6,000,000,000</u>	Shares of HK\$0.10 each	<u>600,000,000</u>
Issued fully paid and credited as fully paid		<i>HK\$</i>
2,888,389,483	Shares in issue as at the Latest Practicable Date	288,838,948.30
1,666,666,666	Conversion Shares to be issued upon full conversion of the Convertible Bond	166,666,666.60
450,000,000	Interest Conversion Shares to be issued assuming all interest payments are to be paid by way of allotment and issuance of new Shares	45,000,000.00
<u>5,005,056,149 Shares</u>		<u>500,505,614.90</u>

All of the Conversion Shares and Interest Conversion Shares to be issued will rank pari passu in all respect with each other, including, in particular, as to dividends, voting rights and capital, and once issued and fully paid, with all the Consolidated Shares in issue as at the date of allotment and issue of the Conversion Shares and Interest Conversion Shares. The Conversion Shares and Interest Conversion Shares to be issued will be listed on the Stock Exchange.

No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or Conversion Shares and Interest Conversion Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

As at the Latest Practicable Date, the Company has no other outstanding convertible securities, options or warrants, which confer any right to subscribe for or convert or exchange into Shares except those set out below:

Description	Date of the relevant announcement of the Company	Number of Shares issuable
The Second Series CB (<i>Note 1</i>)	9 July 2013	150,141,110
Unlisted Warrants	16 April 2013	72,204,399
The First Series CB	16 April 2013	59,028,414
Outstanding options granted under New Share Option Scheme (<i>Note 1</i>)	—	10,787,062
Outstanding options granted under Post-IPO Share Option Scheme (<i>Note 1</i>)	—	12,885,263

Notes:

1. Mr. Sin, being one of the holders of the Second Series CB (in the aggregate principal amount of HK\$46,200,000) and Share Option Holders (attaching subscription rights to subscribe for an aggregate of 11,459,015 Shares), and Miss Law being one of the holders of Second Series CB (in the aggregate principal amount of HK\$38,220,000 Shares) and Share Option Holders (attaching subscription rights to subscribe for an aggregate of 7,476,935 Shares).

3. DISCLOSURE OF INTERESTS BY DIRECTORS AND CHIEF EXECUTIVES

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) to be notified to the Company and the Stock Exchange pursuant to R5.46 to 5.67 of the GEM Listing Rules were as follows:

1. Long Positions in the shares of the Company

Name of Directors	Capacity/Nature of interest	Number of shares	Interest in controlled corporation	Total	Approximate percentage of the issued share capital of the Company
(a) The Company (Ordinary shares of HK\$0.1 each)					
Mr. Sin Kwok Lam (<i>Note</i>)	Beneficial owner	683,473,000	–	683,473,000	23.66%
	Interest of spouse	23,352,000	–	23,352,000	0.81%
Miss Law Po Yee (<i>Note</i>)	Beneficial owner	23,352,000	–	23,352,000	0.81%
	Interest of spouse	683,473,000	–	683,473,000	23.66%

Note 1: Mr. Sin and Miss Law together beneficially owned 706,825,000 Shares, representing approximately 24.47% of the issued share capital of the Company. By virtue of SFO, Miss Law, the spouse of Mr. Sin, was deemed to be interested in all the Shares in which Mr. Sin was interested, and Mr. Sin is also deemed to be interested in the Shares in which Miss Law was interested for the purpose of the SFO.

2. Rights to acquire shares in the Company

i. *Post-IPO Share Option Scheme*

Details of grantees	Date of grant	Exercise price per share* (HK\$)	Exercisable period	Number of share options*				
				As at 1 January 2014	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2014
Mr. Sin Kwok Lam (Director)	29 September 2010	2.89	29 September 2010 to 2 September 2020	7,964,160	–	–	–	7,964,160
Miss Law Po Yee (Director)	29 September 2010	2.89	29 September 2010 to 2 September 2020	3,982,080	–	–	–	3,982,080
Mr. Chow Kai Weng (Director)	29 September 2010	2.89	29 September 2010 to 2 September 2020	24,888	–	–	–	24,888
Mr. Li Sin Hung Maxim (Director)	20 May 2010	3.38	20 May 2010 to 19 May 2020	25,065	–	–	–	25,065
Mr. Chui Chi Yun, Robert (Director)	13 May 2010	3.66	13 May 2010 to 12 May 2020	33,292	–	–	–	33,292
Mr. Chan Tin Lup, Trevor (Director)	20 May 2010	3.38	20 May 2010 to 19 May 2020	33,420	–	–	–	33,420
Prof. Wong Lung Tak, Patrick (Director)	20 May 2010	3.38	20 May 2010 to 19 May 2020	33,420	–	–	–	33,420

ii. New Share Option Scheme

Details of grantees	Date of grant	Exercise price per share* (HK\$)	Exercisable period	Number of share options*				
				As at 1 January 2014	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2014
Mr. Sin Kwok Lam (Director)	28 March 2011	7.62	28 March 2012 to 27 March 2021	3,360,403	–	–	–	3,360,403
	31 March 2012	5.59	31 March 2012 to 30 March 2017	134,450	–	–	–	134,450
Miss Law Po Yee (Director)	28 March 2011	7.62	28 March 2012 to 27 March 2021	3,360,403	–	–	–	3,360,403
	31 March 2012	5.59	31 March 2012 to 30 March 2017	134,450	–	–	–	134,450
Mr. Chow Kai Weng (Director)	28 March 2011	7.62	28 March 2012 to 27 March 2021	58,807	–	–	–	58,807
	31 March 2012	5.59	31 March 2012 to 30 March 2017	67,225	–	–	–	67,225
Miss Sin Ho Yee (Director)	28 March 2011	7.62	28 March 2012 to 27 March 2021	1,344,161	–	–	–	1,344,161
	31 March 2012	5.59	31 March 2012 to 30 March 2017	50,419	–	–	–	50,419
Mr. Li Sin Hung Maxim (Director)	28 March 2011	7.62	28 March 2012 to 27 March 2021	8,401	–	–	–	8,401
	31 March 2012	5.59	31 March 2012 to 30 March 2017	16,806	–	–	–	16,806
Mr. Chui Chi Yun, Robert (Director)	28 March 2011	7.62	28 March 2012 to 27 March 2021	33,604	–	–	–	33,604
	31 March 2012	5.59	31 March 2012 to 30 March 2017	67,225	–	–	–	67,225
Mr. Chan Tin Lup, Trevor (Director)	28 March 2011	7.62	28 March 2012 to 27 March 2021	33,604	–	–	–	33,604
	31 March 2012	5.59	31 March 2012 to 30 March 2017	67,225	–	–	–	67,225
Prof. Wong Lung Tak, Patrick (Director)	28 March 2011	7.62	28 March 2012 to 27 March 2021	33,604	–	–	–	33,604
	31 March 2012	5.59	31 March 2012 to 30 March 2017	67,225	–	–	–	67,225

3. Long positions in the underlying shares of the Convertible Bonds

Name of Directors	Capacity/ Nature of interest	Description of equity derivatives	Total number of Shares involved	Approximate percentage of the issued share capital
Mr. Sin	beneficial owner interest of spouse	Second Series	43,461,900	1.5%
		CB (<i>Note</i>)	35,954,844	1.24%
Miss Law	beneficial owner interest of spouse	Second Series	35,954,844	1.24%
		CB (<i>Note</i>)	43,461,900	1.5%

Note: The Second Series CB with outstanding amount of HK\$46,200,000 and HK\$38,220,000 were owned by Mr. Sin and Miss Law as at the Latest Practicable Date, which total amount were originally issued by the Company to Mr. Sin on 2 October 2013 following the completion of the acquisition agreement and the supplemental agreement entered between the Company and Mr. Sin, in connection with the acquisition of the remaining 49% of the entire issued share capital in HRL and EPL. On 28 September 2014, the Second Series CB with principal amount of HK\$38.22 million were transferred by Mr. Sin to Miss Law. The Second Series CB bears 4% interest per annum and are convertible into shares of the Company at the conversion price of HK\$1.063 per share (subject to adjustment according to the terms of the convertible bonds). By virtue of SFO, Miss Law is the spouse of Mr. Sin and is deemed to be interested in such underlying shares in which Mr. Sin was interested, and Mr. Sin is also deemed to be interested in such underlying shares in which Miss Law was interested for the purpose of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executives of the Company had any interests or short positions in the Shares, underlying Shares or debenture of the Company or any of its associated companies (with the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standard of dealings by Directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules, are required to be notified to the Company and the Stock Exchange.

4. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to the Directors or chief executives of the Company, the following persons (other than a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part. XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

Long Positions in the Shares

Name of Shareholder	Long position/ Short Position	Capacity	Number of Shares held/ involved	Number of underlying Shares held/ involved	Approximately percentage of
Tse Young Lai	Long Position	Beneficial Owner	563,547,600	–	19.51%

Save as disclosed above, as at the Latest Practicable Date, there was no person known to the Directors or the chief executive of the Company other than the Directors or the chief executive of the Company, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any subsidiaries of the Company, or any options in respect of such capital.

5. DIRECTORS' SERVICE CONTRACTS

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

6. DIRECTORS' INTERESTS IN ASSETS/CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date and save as disclosed below, none of the Directors has, or has had, any direct or indirect interest in any assets which have been acquired, disposed of or leased to or which are proposed to be acquired, disposed of or leased to the Company or any of its subsidiaries, respectively, since 31 December 2013, the date to which the latest published audited consolidated financial statements of the Company were made up.

As at the Latest Practicable Date, there was no contract or arrangement entered into by any member of the Group, subsisting in which any of the Directors is materially interested and which is significant in relation to the business of the Group as a whole.

7. COMPETING INTERESTS

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

8. EXPERTS

The following are the qualifications of the experts who have given opinions or advice, which are contained in this circular:

Name	Qualification
Beijing Securities Limited	a licensed corporation under the SFO to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
HLB Hodgson Impey Cheng Limited (“HLB”)	Certified Public Accountants
RHL Appraisal Limited	Professional property valuer

As at the Latest Practicable Date, none of the above experts had any direct or indirect shareholdings in any member of the Group, or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group, or any interests, directly or indirectly, in any assets which have been acquired, disposed of or leased to or which are proposed to be acquired, disposed of or leased to the Company or any of their respective subsidiaries, respectively, since 31 December 2013 the date to which the latest published audited financial statements of the Group were made up.

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its report/letter and references to its name in the form and context in which they appear.

9. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation, claim or arbitration of material importance and there was no litigation, claim or arbitration of material importance known to the Directors to be pending or threatened against any member of the Group.

10. MATERIAL CONTRACTS

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

- (a) the placing agreement dated 7 January 2015 entered into between the Company and Convoy Investment Services Limited in relation to placing of bonds in the aggregate principal amount of HK\$200,000,000;
- (b) the Sale and Purchase Agreement;

- (c) the Lease Agreement;
- (d) the underwriting agreement dated 2 May 2014 (as supplemented by the supplemental agreement dated 16 June 2014) in relation to the rights issue at a price of HK\$0.188 per right share on the basis of six rights shares for every one share held on 14 July 2014;
- (e) the irrevocable undertakings dated 2 May 2014 given by each of Mr. Sin and Miss Law in favour of the Company and the Emperor Securities Limited;
- (f) the agreement dated 28 June 2013 (as supplemented by the supplemental agreement dated 9 July 2013) entered into between Mr. Sin and the Company relating to the sale and purchase of 49% of the shares in capital of Head Return Limited and 49% of the shares in capital of Expand Pacific Limited and also the terms and conditions of the cash in amount HK\$130,000,000 and the convertible bonds in an aggregate principal amount of HK\$420,000,000; and
- (g) the placing and underwriting agreement dated 16 April 2013 entered into between the Company and Emperor Securities Limited in relation to placing of bonds in an aggregate principal amount of HK\$78,775,000 and convertible bonds in an aggregate principal amount of HK\$92,000,000.

11. CORPORATE INFORMATION

Registered office of the Company	Clarendon House 2 Church Street Hamilton HM11 Bermuda
Head Office and principal place of business of the Company in Hong Kong	Unit B, 2/F, Jone Mult Factory Building 169 Wai Yip Street Kwun Tong, Kowloon, Hong Kong
Branch share registrar and transfer office of the Company in Hong Kong	Tricor Secretaries Limited Level 22, Hopewell Centre 183 Queen's Road East, Hong Kong
Authorized representatives	Miss Law Po Yee Mr. Chow Kai Weng
Compliance Officer	Miss Law Po Yee
Company Secretary	Mr. Chan Man Hung
Legal advisors to the Company	(as to Hong Kong laws) Mason Ching & Associates 2403, 24/F., World-Wide House, 19 Des Voeux Road Central, Hong Kong

	(as to Bermuda law) Conyers Dill & Pearman 2901, One Exchange Square, 8 Connaught Place, Central, Hong Kong
Auditors	HLB Hodgson Impey Cheng Limited 31/F, Gloucester Tower, The Landmark, 11 Pedder Street Central, Hong Kong
Principal bankers	Hang Seng Bank Limited 83 Des Voeux Road Central, Hong Kong
Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders	Beijing Securities Limited 14th Floor, Shanghai Industrial Investment Building, 48 Hennessy Road, Wanchai, Hong Kong

Particulars of Directors

(a) Name and address of Directors

Name	Address
<i>Executive Directors</i>	
Miss Law Po Yee	House J44, Marina Cove, 380 Hiram's Highway, Hebe Haven, Sai Kung, New Territories, Hong Kong
Mr. Chow Kai Weng	Room 806, Sau Wai House, Sau Mau Ping Estate, Kwun Tong, Kowloon, Hong Kong
Miss Sin Ho Yee	Flat G, 19/F., Block 15, Ocean Shores, 88 O King Road, Tseung Kwan O, New Territories, Hong Kong

Non-Executive Directors

Mr. Sin Kwok Lam

House J44,
Marina Cove, 380 Hiram's Highway,
Hebe Haven,
Sai Kung,
New Territories,
Hong Kong

Mr. Li Sin Hung Maxim

Flat E, 9th Floor.,
Block 4,
Lynwood Court,
Kingswood Villas,
Tin Shui Wai,
Hong Kong

Independent Non-Executive Directors

Mr. Chan Tin Lup Trevor

Flat C, 7/F.,
Kong Lan House,
1156 Canton Road,
Mongkok,
Kowloon,
Hong Kong

Mr. Chui Chi Yun Robert

Flat B, 51/F.,
Tower 8,
The Palazzo,
28 Lok King Street,
Fo Tan, Shatin,
New Territories,
Hong Kong

Prof. Wong Lung Tak Patrick

Flat 6A,
Cumine Court,
52 King's Road,
North Point,
Hong Kong

Mr. Li Kit Chee

Flat F, 27/F.,
Hoi Sing Mansion,
TaiKoo Shing,
Hong Kong

Executive Directors

Miss Law Po Yee, aged 34, was appointed as the Vice Chairperson of the Board on 26 October 2010, as an Executive Director of the Company on 5 August 2010 and as Chief Executive Officer and compliance officer of the Company on 9 May 2011. Miss Law has extensive experience in entertainment, artiste management and film production industries. Miss Law also has years of banking experience, specializing in risk management. Miss Law is the spouse of Mr. Sin.

Mr. Chow Kai Weng, aged 29, joined the Group in January 2010. Mr. Chow holds a bachelor degree of Business Administration with previous experiences in media and financial industries. Mr. Chow was appointed as Executive Director on 25 March 2011.

Miss Sin Ho Yee, aged 29, joined the Group in March 2011. Miss Sin holds a diploma of Communication from the Melbourne Institute of Business and Technology. Miss Sin was appointed as Executive Director on 25 March 2011.

Non-Executive Directors

Mr. Sin Kwok Lam, aged 56, was appointed as the Chairman of the Board and the Executive Director of the Board on 31 May 2010. Mr. Sin was re-designated from an Executive Director to a Non-executive Director in October 2010. Mr. Sin has over 20 years' banking experience in various departments including Internal Audit, Finance, Risk Management and Business. Mr. Sin is an associate member of the Chartered Institute of Banker, and he holds a master degree in Business Administration from Oklahoma City University, USA, a Certified Diploma in Accounting and Finance from the Association of Chartered Certified Accountants, a Graduate Diploma in Law Course from City University, London, UK, a Bachelor of Laws (LL.B.) from Manchester Metropolitan University. Mr. Sin is the Chairman and an Executive Director of First Credit Finance Group Limited (stock code: 8215).

Mr. Li Sin Hung Maxim, aged 44, worked for Cathay Pacific Airways Limited during the period from 1996-1998. After resigned from Cathay Pacific, Mr. Li continued his education in Boston and started food and beverage business and plastic resin trading business in the United States of America. In 2000, Mr. Li returned to Hong Kong and worked in HSBC, Federal Express Pacific Inc. and Midland Holding. Mr. Li is a current holder of Estate Agents Licence (Individual) and as a Certified Paralegal in Institute of Paralegals. Mr. Li was re-designated from an Executive Director to a Non-executive Director in May 2011. Prior to the re-designation, Mr. Li was an Executive Director since May 2009.

Independent Non-Executive Directors

Mr. Chan Tin Lup Trevor, aged 55, was born in Hong Kong and has been in the legal field for over 20 years. He received his legal education in England where he was awarded the Postgraduate Diploma in Laws (the Legal Practice Course) from the University of Wolverhampton after he had obtained the law degree from the University of London. Apart from his law degree, he also obtained a bachelor degree in Chinese literature and history. Before he commenced his practice, he had worked with the Insolvency and Criminal Litigation Sections of the Legal Aid Department for 12 years. As for the public service, Mr. Chan was an honorary chairman and legal adviser of the Urban Services Staff Association (Tsuen Wan Welfare Section). He is a general practice lawyer and a committee member of Hong Kong Legal Professionals Association. Mr. Chan is also an Independent Non-executive director of Sun International Group Limited (Stock Code: 8029). Mr. Chan was appointed as an Independent Non-executive Director in May 2009.

Mr. Chui Chi Yun Robert, aged 58, holds a Bachelor's degree in Commerce and is a practicing Certified Public Accountant in Hong Kong. Mr. Chui is a fellow member of the Hong Kong Institute of Certified Public Accountants and The Chartered Association of Certified Accountants. Mr. Chui is also an independent non-executive director of Tse Sui Luen Jewellery (International) Limited (Stock Code: 417) and Wing Lee Property Investment Limited (Stock Code: 864) and Addchance Holdings Limited (Stock Code: 3344) on 22 December 2014, was also an Independent Non-executive Director of 21 Holdings Limited (stock code: 1003) until his resignation in September 2011. Mr. Chui was appointed as an Independent Non-executive Director in May 2009. He is now currently the Commissioner of the Hong Kong Road Safety Patrol. He is a member of the Road Safety Campaign Committee of the Road Safety Council. He is also a director of a number of private companies and association.

Prof. WONG Lung Tak, Patrick, B.B.S., J.P., aged 66, is an independent non-executive director since 2001, the chairman of Audit Committee and the members of Disclosure Committee, Investment Advisory Committee, Nomination Committee and Remuneration Committee of the Company. Prof. Wong is a Practising Certified Public Accountant. He is the managing practising director of Patrick Wong CPA Limited and has over 30 years experience in the accountancy profession. Prof. Wong obtained a Doctor of Philosophy Degree in Business, was awarded a Badge of Honour in 1993 by the Queen of England. He has been appointed as a Justice of the Peace since 1998 and was awarded a Bronze Bauhinia Star (B.B.S.) in 2010 by The Government of the Hong Kong Special Administrative Region. Prof. Wong is currently an independent non-executive director of China Precious Metal Resources Holdings Co., Ltd., C C Land Holdings Limited, Galaxy Entertainment Group Limited, Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (formerly Guangzhou Pharmaceutical Company Limited), Real Nutraceutical Group Limited, Sino Oil and Gas Holdings Limited, National Arts Entertainment and Culture Group Limited, Winox Holdings Limited, Excel Development (Holdings) Limited and BAIC Motor Corporation Limited, all are listed on The Stock Exchange of Hong Kong Limited.

Mr. Li Kit Chee, aged 59, has more than 30 years' experience in auditing, accounting and secretarial services. Mr. Li holds a bachelor degree of social sciences (with honours) in the University of Hong Kong. He is also a fellow member of The Chartered Association of Certified Accountants. Mr. Li is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and a managing director of Arthur Li, Yau & Lee C.P.A. Limited. Mr. Li is a director of Cheong Yip Corporate Services Limited, which is principally engaged in corporate service related business. Mr. Li is also an independent non-executive director of Henry Group Holdings Limited (stock code: 00859) and Tysan Holdings Limited (stock code: 00687), companies whose shares are listed on the Main Board of the Stock Exchange. Immediately prior to joining the Group, Mr. Li was an independent non-executive director of First Credit Finance Group Limited whose shares are listed on the GEM of the Stock Exchange (stock code: 8215) until his resignation on May 2014.

Company Secretary

Mr. Chan Man Hung, aged 51, joined the Group as company secretary on 11 November 2011. He was admitted as a solicitor in Hong Kong in October 1996. Mr. Chan has more than 15 years of experiences in legal and corporate secretary area.

12. AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based on the guidelines recommended by the Hong Kong Institute of Certified Public Accountants and the mandatory provisions in the Code on Corporate Governance Practices of the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual report and accounts, interim report and quarterly reports and to provide advices and comments thereon to the Board. The audit committee is also responsible for reviewing the accounting principles and practices adopted by the Group and also the auditing, internal control and financial reporting matters.

The audit committee consists of three independent non-executive Directors, namely Mr. Chui Chi Yun Robert, Prof. Wong Lung Tak Patrick and Mr. Chan Tin Lup Trevor. Mr. Chui is the chairman of the audit committee.

13. MISCELLANEOUS

- (a) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda
- (b) The secretary of the Company is Mr. Chan Man Hung. Mr. Chan Man Hung is an associate member of both of Hong Kong Institute of Chartered Secretaries and Institute of Chartered Secretaries and Administrators.

- (c) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road, Hong Kong.
- (d) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.
- (e) As at the Latest Practicable Date, there was no restriction affecting the remittance of profits or repatriation of capital of the Company into Hong Kong from outside of Hong Kong. Save and except for US\$ and RMB, the Group has no exposure to foreign exchange liabilities. As HK\$ is pegged to US\$, the Group considers the risk of movements in exchange rates between HK\$ and US\$ to be insignificant for transactions denominated in US\$. The Group will have sufficient foreign exchange, generated from the operation of the PRC subsidiaries to pay forecasted or planned dividends and to meet its foreign exchange liabilities as they become due. The Company will pay its dividends, if any, in HK\$.

14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours from 9:00 a.m. to 12:30 p.m. and from 2:00 p.m. to 5:30 p.m. (other than Saturdays, Sundays and public holidays in Hong Kong) at the principal place of business of the Company in Hong Kong at Unit B, 2/F, Jone Mult Factory Building, 169 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong from the date of this circular up to and including the date of the SGM:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the annual reports of the Company for the two financial years ended 31 December 2012 and 2013;
- (c) the letter from the Independent Board Committee, the text of which is set out on pages 29 to 30 of this circular;
- (d) the letter of advice from Beijing Securities Limited, the Independent Financial Adviser, the text of which is set out on pages 31 to 60 of this circular;
- (e) the accountants' report of HLB Hodgson Impey Cheng Limited on the Target Company for the period ended 31 December 2013 and the nine months ended 30 September 2014 set out in Appendix II to this circular and its letter on the unaudited proforma financial information of the Enlarged Group set out in Appendix III to this circular;

- (f) the material contracts disclosed in the paragraph under the headed “Material Contracts” in this Appendix;
- (g) the written consents referred to in the paragraph under the headed “Experts” in this Appendix; and
- (h) all circulars of the Company issued pursuant to the requirement set out in Chapter 19 and/or 20 of the GEM Listing Rules which have been issued since 31 December 2013 and including this circular.

NOTICE OF SGM



National Arts

NATIONAL ARTS ENTERTAINMENT AND CULTURE GROUP LIMITED

國藝娛樂文化集團有限公司*

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 8228)

NOTICE IS HEREBY GIVEN that a special general meeting (the “**Meeting**”) of National Arts Entertainment and Culture Group Limited (the “**Company**”) will be held at Unit B, 2/F, Jone Mult Factory Building, 169 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong on Friday, 10 April 2015 at 10:30 a.m. for the purpose of considering and, if thought fit, passing the following resolution, with or without amendments, as ordinary resolutions of the Company. Capitalized terms used herein without definition shall have the same meanings as in the circular issued by the Company on 23 March 2015 (the “**Circular**”), unless the context otherwise requires.

ORDINARY RESOLUTION

“**THAT:**

- (i) the Sale and Purchase Agreement dated 22 December 2014, a copy of which is marked “A” and initiated by the chairman of the SGM for identification purpose and tabled at the SGM, entered into among the Vendor, the Purchaser and the Company pursuant to which, the Purchaser, a company incorporated in the British Virgin Islands with limited liability and a direct wholly owned subsidiary of the Company, conditionally agreed to purchase the entire share capital of the Target Company on terms contained therein and the Loans at the aggregate Consideration of HK\$400,000,000 and all transactions contemplated thereunder be and are hereby approved, ratified and confirmed;
- (ii) the creation and issuance of the Convertible Bond by the Company in accordance with the terms and conditions of the Sale and Purchase Agreement and the terms and conditions of the Convertible Bond as set out in the Sale and Purchase Agreement and all transactions contemplated thereunder be and are hereby approved;
- (iii) the issuance and allotment of up to a maximum number of 1,666,666,666 new ordinary shares of HK\$0.1 each in the Company at the conversion price of HK\$0.18 each (subject to adjustments) which may fall to be issued upon the exercise of the conversion rights attached to the Convertible Bond be and are hereby approved;

* For identification purpose only

NOTICE OF SGM

- (iv) the issuance and allotment of up to a maximum number of 450,000,000 new ordinary shares of HK\$0.1 each in the Company at the interest conversion price of HK\$0.18 each (subject to adjustments) which may fall to be issued upon the exercise of the conversion rights attached to the Convertible Bond to be issued under the Interest Conversion Arrangement at the request of the holder of the Convertible Bond be and are hereby approved;
- (v) the creation and issuance of the Promissory Notes by the Company in accordance with the terms and conditions of the Sale and Purchase Agreement and the terms and conditions of the Promissory Notes as set out in the Sales and Purchase Agreement and all transactions contemplated thereunder be and are hereby approved; and
- (vi) the Directors be are hereby authorised to do all such acts and things (including, without limitation, signing, executing (under hand or under seal), perfecting and delivering all agreements, documents and instruments) which are in their opinion, necessary, appropriate, desirable or expedient to implement or to give effect to the terms of the Sale and Purchase Agreement and all transactions contemplated thereunder (including the issue of Convertible Bond, the issue of the Conversion Shares, the Interest Conversion Shares and the issue of Promissory Notes) and all other matters incidental thereto or in connection therewith and to agree to and make such variation, amendment and waiver of any of the matters relating thereto or in connection therewith that are, in the opinion of the Directors, not material to the terms of the Sale and Purchase Agreement and all transactions contemplated thereunder and are in the interests of the Company.”

By Order of the Board
**NATIONAL ARTS ENTERTAINMENT AND
CULTURE GROUP LIMITED**
Law Po Yee
Chief Executive Officer

Hong Kong, 23 March 2015

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

Principal place of business in Hong Kong:
Unit B, 2/F
Jone Mult Factory Building
169 Wai Yip Street
Kwun Tong
Kowloon
Hong Kong

NOTICE OF SGM

Notes:

- (1) A proxy form for use at the Meeting has been dispatched to the Shareholders together with a copy of this notice.
- (2) A member of the Company entitled to attend and vote at the Meeting convened by the above notice is entitled to appoint one or more proxies to attend the Meeting and vote on his behalf. A proxy need not be a member of the Company but must attend the Meeting in person to represent the member of the Company.
- (3) The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer, attorney or other person authorised to sign the same.
- (4) In order to be valid, the instrument appointing a proxy and (if required by the Board) the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, must be deposited with the Company's Hong Kong branch share registrar, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East Hong Kong, in accordance with the instructions printed thereon not less than 48 hours before the time appointed for holding the Meeting or adjourned Meeting at which the person named in the instrument proposes to vote.
- (5) Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the Meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.
- (6) In the case of joint holders of a share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders are present at the Meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
- (7) Any voting at the Meeting shall be taken by poll.