
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your securities in National Arts Entertainment and Culture Group Limited (國藝娛樂文化集團有限公司) (the “Company”), you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase, or subscribe for the securities of the Company.

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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) PROPOSED SHARE CONSOLIDATION;
(2) PROPOSED RIGHTS ISSUE ON THE BASIS OF SIX RIGHTS SHARES FOR EVERY
CONSOLIDATED SHARE HELD ON THE RECORD DATE;
AND
(3) NOTICE OF SPECIAL GENERAL MEETING

Financial adviser to the Company



英皇融資有限公司
Emperor Capital Limited

Underwriter of the Rights Issue



英皇證券(香港)有限公司
Emperor Securities Limited

Independent financial adviser to the Independent Board Committee and
the 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.

It should be noted that the Consolidated Shares will be dealt in on an ex-rights basis from Tuesday, 8 July 2014. Dealings in the Rights Shares in their nil-paid form will take place from Thursday, 17 July 2014 to Thursday, 24 July 2014 (both dates inclusive). If the conditions of the Rights Issue are not fulfilled or waived (as applicable) at or before 4:00 p.m. on Friday, 1 August 2014 (or such later time as the Company and the Underwriter may agree in writing), the Rights Issue will not proceed. Any persons contemplating dealing in the Shares or the Consolidated Shares prior to the date on which the conditions of the Rights Issue are fulfilled or waived (as applicable), and/or dealings in the nil-paid Rights Shares, are accordingly subject to the risk that the Rights Issue may not become unconditional or may not proceed.

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 38 to 60 of this circular and a letter of recommendation from the Independent Board Committee to the Independent Shareholders is set out on pages 36 to 37 of this circular.

A notice convening a special general meeting of the Company to be held at Friday, 4 July 2014 Hong Kong at Unit B, 2/F, Jone Mult Factory Building, 169 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong is set out on pages 94 to 96 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar of the Company in Hong Kong, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish and in such event, the instrument appointing a proxy shall be deemed to be revoked.

18 June 2014

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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

TERMINATION AND RESCISSION OF THE UNDERWRITING AGREEMENT

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

It should be noted that the Underwriter may terminate or rescind (as the case may be) the arrangements set out in the Underwriting Agreement by notice in writing issued to the Company at any time prior to 4: 00 p.m. on Friday, 1 August 2014 if there occurs:

- (A) the Underwriter shall become aware of the fact that the undertakings provided by each of the Company, Mr. Sin and Miss Law are not duly complied with or shall have reasonable cause to believe that any of the warranties in the Underwriting Agreement was untrue, inaccurate, misleading or breached, and in each case the same is (in the absolute opinion of the Underwriter) material in the context of the Rights Issue; or
- (B) there shall be:
 - (i) any new law or regulation is enacted, or there is any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority, whether in Hong Kong or elsewhere;
 - (ii) any change in local, national or international financial, political, industrial or economic conditions;
 - (iii) any change of an exceptional nature in local, national or international equity securities or currency markets;
 - (iv) any local, national or international outbreak or escalation of hostilities, insurrection or armed conflict;
 - (v) any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange;
 - (vi) any suspension in the trading of the Shares or Consolidated Shares on the Stock Exchange for a continuous period of 7 trading days (as defined in the GEM Listing Rules);

TERMINATION AND RESCISSION OF THE UNDERWRITING AGREEMENT

- (vii) any change or development involving a prospective change in taxation or exchange controls in Hong Kong or elsewhere

which is or are, in the absolute opinion of the Underwriter:–

- (a) likely to have a material adverse effect on the business, financial position or prospects of the Group taken as a whole; or
- (b) likely to have a material adverse effect on the success of the Rights Issue or the level of Rights Shares to be taken up; or
- (c) so material as to make it inappropriate, inadvisable or inexpedient to proceed further with the Rights Issue.

Upon giving of notice of termination or rescission pursuant to the Underwriting Agreement, all obligations of the Underwriter under the Underwriting Agreement shall cease and determine and none of the parties to the Underwriting Agreement shall have any claim against the other parties in respect of any matter or thing arising out of or in connection with the Underwriting Agreement save for any antecedent breach of the Underwriting Agreement and the Company shall remain liable to pay to the Underwriter such fees and expenses (but not the underwriting commission) referred to in the Underwriting Agreement. If the Underwriter exercises such rights, the Rights Issue will not proceed.

CONTENTS

	<i>Page</i>
DEFINITIONS	1
EXPECTED TIMETABLE	7
LETTER FROM THE BOARD	11
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	36
LETTER FROM INDEPENDENT FINANCIAL ADVISER	38
APPENDIX I – FINANCIAL INFORMATION OF THE GROUP	61
APPENDIX II – UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP	67
APPENDIX III – GENERAL INFORMATION	74
NOTICE OF SPECIAL GENERAL MEETING	94

DEFINITIONS

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

“Announcements”	the announcements of the Company dated 2 May 2014 and 5 May 2014 in relation to the Share Consolidation and Right Issue
“associate(s)”	the meaning ascribed thereto under the GEM Listing Rules
“Beijing Securities” or “Independent Financial Adviser”	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 Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). The independent financial adviser to the Independent Board Committee and Independent Shareholders in respect of the Right Issue
“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
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Companies Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance, Chapter 32 of the Laws of Hong Kong
“Company”	National Arts Entertainment and Culture Group Limited, an company incorporated in the Cayman Islands and continued in Bermuda with limited liability, the Shares of which are listed on GEM
“connected person(s)”	the meaning ascribed thereto under the GEM Listing Rules
“Consolidated Share(s)”	ordinary share(s) of HK\$0.10 each in the issued and unissued capital of the Company upon the Share Consolidation becoming effective
“Convertible Bonds”	the First Series CB and the Second Series CB
“Convertible Bonds Holder(s)”	the holder(s) of Convertible Bonds
“Director(s)”	director(s) of the Company

DEFINITIONS

“EAF(s)”	the form(s) of application to be issued to the Qualifying Shareholders for applying for excess Rights Shares
“Excluded CB”	the Convertible Bonds held by the Convertible Bond Holder(s) other than Mr. Sin
“Excluded Share Options”	the Share Options held by Share Options Holders other than Mr. Sin and Miss Law
“Final Acceptance Date”	4:00 p.m. on Tuesday, 29 July 2014 (or such other date as the Underwriter may agree with the Company as the latest date for acceptance of, and payment for, Rights Shares and payment for excess Rights Shares)
“First Series CB”	the outstanding convertible bonds of the Company in the aggregate principal amount of HK\$83,950,000 convertible into 730,000,000 Shares at HK\$0.115 per Share (subject to 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 the Underwriter, details of which are contained in the announcements of the Company dated 16 April 2013.
“GEM”	The Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the independent board committee of the Board, comprising Mr. Chan Tin Lup Trevor, Mr. Chui Chi Yun Robert and Prof. Wong Lung Tak Patrick, all are independent non-executive Directors, established to advise the Independent Shareholders of the Rights Issue

DEFINITIONS

“Independent Shareholder(s)”	any Shareholder(s) other than the Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates
“IPO”	initial public offering
“Irrevocable Undertaking”	the irrevocable undertaking dated 2 May 2014 given by Mr. Sin and Miss Law, in favor of the Company and the Underwriter
“Last Trading Day”	2 May 2014, being the last trading day of the Shares on the Stock Exchange before the release of the announcement of the Company dated 2 May 2014 in relation to the Share Consolidation and Rights Issue
“Latest Practicable Date”	16 June 2014, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Miss Law”	Miss Law Po Yee, being the spouse of Mr. Sin, who legally and beneficially owned 33,360,000 Shares (without taking into account of the interests in share options held under New Share Options and Post-IPO Share Options) representing approximately 0.81% of the entire issued capital of the Company as at the Latest Practicable Date
“Mr. Sin”	Mr. Sin Kwok Lam, a Substantial Shareholder of the Company who legally and beneficially owned 976,390,000 Shares (without taking into account of the interests in share options held under New Share Options and Post-IPO Share Options) representing approximately 23.66% of the entire issued capital of the Company as at the Latest Practicable Date
“New Share Options”	the outstanding 104,022,000 share options granted by the Company pursuant to the New Share Option Scheme entitling the holders of the New Share Options to subscribe for 104,022,000 new Shares
“New Share Option Scheme”	the share option scheme of the Company adopted on 29 September 2010

DEFINITIONS

“Non-Qualifying Shareholder(s)”	those Overseas Shareholder(s) whom the Directors, based on legal advice provided by the Company’s legal advisers, consider it necessary or expedient not to offer the Rights Shares to such shareholders on account either of legal restrictions under the laws of the relevant place(s) or the requirements of the relevant regulatory body or stock exchange in that (those) place(s)
“Overseas Shareholder(s)”	Shareholder(s) whose name(s) appear(s) on the register of members of the Company at the close business on the Record Date and whose address(es) as shown on such register is (are) outside Hong Kong
“PAL(s)”	the renounceable provisional allotment letter(s) to be issued to the Qualifying Shareholders in connection with the Rights Issue
“Posting Date”	Tuesday, 15 July 2014 or such other date as the Underwriter may agree with the Company, as the date of despatch of the Prospectus Documents to the Qualifying Shareholders or the Prospectus for information only to the Non-Qualifying Shareholders (as the case may be)
“Post-IPO Share Options”	the outstanding 124,255,233 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 124,255,233 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
“Prospectus”	the prospectus to be despatched to Shareholders containing details of the Rights Issue
“Prospectus Documents”	the Prospectus, PAL and EAF
“Qualifying Shareholder(s)”	Shareholder(s), other than the Non-Qualifying Shareholder(s), whose name(s) appear(s) on the register of members of the Company on the Record Date
“Record Date”	Monday, 14 July 2014 (or such other date as the Underwriter may agree with the Company), as the date by reference to which entitlements to the Rights Issue are expected to be determined

DEFINITIONS

“Registrar”	Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong
“Rights Issue”	the proposed issue by way of rights of six Rights Shares for every Consolidated Share in issue and held on the Record Date at the Subscription Price on the terms and subject to the conditions set out in the Underwriting Agreement and the Prospectus Documents
“Rights Share(s)”	Consolidated Share(s) to be issued and allotted under the Rights Issue, being not less than 2,475,762,414 Consolidated Shares but not more than 3,959,666,814 Consolidated Shares
“RMB”	Renminbi, the lawful currency of PRC
“Second Series CB”	convertible bonds of the Company in the aggregate principal amount of HK\$375,060,000 convertible into 3,348,750,000 Shares at HK\$0.112 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 announcements 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 to consider and, if thought fit, approve the Share Consolidation, the Rights Issue and the transactions contemplated thereunder
“Share(s)”	ordinary share(s) of HK\$0.01 each in the issued and unissued capital of the Company prior to the Share Consolidation
“Share Consolidation”	the proposed consolidation of every ten (10) issued and unissued Shares of HK\$0.01 each into one (1) Consolidated Share par value of HK\$0.10 each
“Shareholder(s)”	holder(s) of Share(s) or Consolidated Share(s), as the case may be
“Share Options”	the Post-IPO Share Options and the New Share Options

DEFINITIONS

“Share Options Holder(s)”	the holder(s) of the outstanding Post-IPO Share Options and New Share Options
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	HK\$0.188 per Rights Share
“Substantial Shareholder(s)”	means a person (including a holder of depositary receipts) who is entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of the Company
“Takeover Code”	The Hong Kong Code on Takeovers and Mergers and Share Buy-backs
“Underwriter”	Emperor Securities Limited, a licensed corporation to carry out business in type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO
“Underwriting Agreement”	the underwriting agreement dated 2 May 2014 (as supplemented on 16 June 2014) entered into between the Company and the Underwriter in relation to the underwriting arrangement in respect of the Rights Issue
“Underwritten Shares”	not less than 1,869,912,414 Rights Shares and not more than 3,353,816,814 Rights Shares underwritten by the Underwriter pursuant to the terms of the Underwriting Agreement
“Unlisted Warrants”	warrants of the Company with rights to subscribe for 685,000,000 Shares at HK\$0.115 per Share (subject to adjustment) exercisable by the holders until the maturity date, details of which are contained in the announcement of the Company dated 16 April 2013
“Untaken Shares”	the Underwritten Shares for which duly completed PAL or EAF (accompanied by cheques or banker’s cashier orders for the full amount payable on application which are honoured on first or, at the option of the Company, subsequent presentation) have not been lodged for acceptance, or received, as the case may be, on or before 4:00 p.m. on the Final Acceptance Date
“US\$”	United States dollar(s), the lawful currency of the United States of America
“%” or “per cent.”	percentage or per centum

EXPECTED TIMETABLE

The expected timetable for the Share Consolidation and the Rights Issue and the associated trading arrangement are set out below:

All times and dates in this circular refer to Hong Kong local times and dates. The expected timetable for the Rights Issue set out below is for indicative purposes only assuming that the Rights Issue will be approved by the Independent Shareholders at the SGM. The expected timetable is subject to change, the Company will notify the Shareholders by way of separate announcement(s) on any change to the expected timetable as soon as practicable.

2014
(Hong Kong time)

Latest time for return of proxy form of SGM (not less than 48 hours prior to the time of holding SGM)	10:00 a.m.	Wednesday, 2 July
Expected date and time of SGM	10:00 a.m.	Friday, 4 July
Announcement of poll results of SGM		Friday, 4 July
Effective date of the Share Consolidation		Monday, 7 July
Commencement of dealings in the Consolidated Shares	9:00 a.m.	Monday, 7 July
Original counter for trading in the Shares in existing share certificates in board lots of 20,000 Shares temporarily closes	9:00 a.m.	Monday, 7 July
Temporary counter for trading in the Consolidated Shares in board lots of 2,000 Consolidated Shares (in the form of existing share certificates) opens	9:00 a.m.	Monday, 7 July
First day of free exchange of existing certificates for the Shares into new certificates for the Consolidated Shares		Monday, 7 July
Last day of dealings in the Consolidated Shares on a cum-rights basis		Monday, 7 July
Commencement of dealings in the Consolidated Shares on an ex-rights basis		Tuesday, 8 July

EXPECTED TIMETABLE

2014
(Hong Kong time)

Latest time for lodging transfers of the Consolidated Shares to be qualified for the Rights Issue	4:30 p.m.	Wednesday, 9 July
Register of members closes (both dates inclusive)		Thursday, 10 July to Monday, 14 July
Record Date for the Rights Issue		Monday, 14 July
Register of member re-opens		Tuesday, 15 July
Despatch of Prospectus Documents		Tuesday, 15 July
First day of dealings in nil-paid Rights Shares		Thursday, 17 July
Original counter for trading in the Consolidated Shares in board lots of 20,000 Consolidated Shares (only new certificates for the Consolidated Shares can be traded at the counter) re-opens	9:00 a.m.	Monday, 21 July
Parallel trading in the Consolidated Shares (in the form of both existing certificates and new certificates) commences	9:00 a.m.	Monday, 21 July
Designated broker starts to stand in the market to provide matching services for the sale and purchase of odd lots of the Consolidated Shares		Monday, 21 July
Latest time for splitting nil-paid Rights Shares	4:30 p.m.	Monday, 21 July
Last day of dealings in nil-paid Rights Shares		Thursday, 24 July
Latest time for acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares	4:00 p.m.	Tuesday, 29 July

EXPECTED TIMETABLE

2014
(Hong Kong time)

Rights Issue expected to become unconditional	4:00 p.m.	Friday, 1 August
Announcement of results of acceptance and excess application of the Rights Issue.		Monday, 4 August
Despatch of refund cheques for wholly and partially unsuccessful applications for excess Rights Shares on or before		Tuesday, 5 August
Despatch of certificates for fully-paid. Rights Shares on or before		Tuesday, 5 August
First day of dealings in fully-paid Rights Shares.	9:00 a.m.	Wednesday, 6 August
Temporary counter for trading in the Consolidated Shares in board lots of 2,000 Consolidated Shares (in the form of existing share certificates) closes	4:00 p.m.	Friday, 8 August
Parallel trading in the Consolidated Shares (in the form of both existing and new certificates) ends	4:00 p.m.	Friday, 8 August
Designated broker ceases to stand in the market to provide matching services for the sale and purchase of odd lots of the Consolidated Shares	4:00 p.m.	Friday, 8 August
Free exchange of existing share certificates for new share certificates ends		Tuesday, 12 August

EXPECTED TIMETABLE

Effect of bad weather on the latest time for acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares

If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on Tuesday, 29 July 2014, the latest time for acceptance of and payment for the Rights Shares will not take place at 4:00 p.m. on Tuesday, 29 July 2014, but will be extended to 5:00 p.m. on the same day instead; and (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on Tuesday, 29 July 2014, the latest time for acceptance of and payment for the Rights Shares will not take place on Tuesday, 29 July 2014, but will be rescheduled to 4:00 p.m. on the following business day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

If the latest time for acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares does not take place on the Final Acceptance Date, the dates mentioned in the expected timetable above may be affected. An announcement will be made by the Company in such event.

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 Chairman, Executive Directors and

Chief Executive Officer:

Miss Law Po Yee

Vice Chairman and Non-executive Director:

Mr. Lam Kwok Hing Wilfred

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. Chiu Chi Yun Robert

Mr. Li Kit Chee

Prof. Wong Lung Tak Patrick

Registered office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

*Head office and principal place of
business in Hong Kong:*

Unit B, 2/F, Jone Malt Factory Building

169 Wai Yip Street

Kwun Tong Kowloon, Hong Kong

18 June 2014

To Shareholders,

Dear Sir or Madam,

**(1) PROPOSED SHARE CONSOLIDATION;
(2) PROPOSED RIGHTS ISSUE ON THE BASIS OF SIX RIGHTS SHARES FOR
EVERY CONSOLIDATED SHARE HELD ON THE RECORD DATE;
AND
(3) NOTICE OF SPECIAL GENERAL MEETING**

INTRODUCTION

Reference is made to the Announcements in relation to, among other things, the proposed Share Consolidation and the Rights Issue.

LETTER FROM THE BOARD

On Friday, 2 May 2014, the Board announced that it proposes to put forward to the Shareholders:

- (a) the Share Consolidation which involves the proposed consolidation of every ten (10) issued and unissued Shares of par value of HK\$0.01 each into one (1) Consolidated Share of par value of HK\$0.10 each;
- (b) subject to the Share Consolidation becoming effective, to implement the Rights Issue on the basis of six Rights Shares for every Consolidated Share held on the Record Date at the Subscription Price to raise a minimum of approximately HK\$465.44 million before expenses (assuming no further issue of new Shares or Consolidated Shares or repurchase of Shares or Consolidated Shares on or before the Record Date) to a maximum of approximately HK\$744.42 million before expenses (assuming Shares or Consolidated Shares are issued pursuant to the exercise of the subscription rights attached to the Unlisted Warrants in full, and exercise of the Excluded Share Options and the conversion rights attached to Excluded CB in full on or before the Record Date and no other issue of Shares or Consolidated Shares) by issuing not less than 2,475,762,414 Rights Shares and not more than 3,959,666,814 Rights Shares to the Qualifying Shareholders.

The purpose of this circular is to provide you with, among other things, (i) further details of the Share Consolidation and the Rights Issue and the transactions contemplated thereunder; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Rights Issue and the transactions contemplated thereunder; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue and the transactions contemplated thereunder; and (iv) the notice convening the SGM.

The Independent Board Committee has been formed to advise the Independent Shareholders in respect of the Rights Issue and the transactions contemplated thereunder. Beijing Securities Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

1. PROPOSED SHARE CONSOLIDATION

The Board proposes to put forward a proposal for the Shareholders the Share Consolidation which involves the proposed consolidation of every ten (10) issued and unissued Shares of par value of HK\$0.01 each into one (1) Consolidated Share of par value of HK\$0.10 each.

The Shares are currently traded in board lot of 20,000 Shares each. After the Share Consolidation becoming effective, the board lot size for trading in Consolidated Shares will remain as 20,000 Consolidated Shares.

LETTER FROM THE BOARD

Effects of the Share Consolidation

As at the Latest Practicable Date, the authorised share capital of the Company is HK\$600,000,000 divided into 60,000,000,000 Shares of HK\$0.01 each, of which 4,126,270,695 Shares have been issued and are fully paid or credited as fully paid. Assuming that no further issue of new Shares or repurchase of Shares between the Latest Practicable Date and the date of the SGM, immediately after the Share Consolidation becoming effective and before completion of the Rights Issue, the authorised share capital of the Company will become HK\$600,000,000 divided into 6,000,000,000 Consolidated Shares of HK\$0.10 each, of which 412,627,069 Consolidated Shares will be in issue which are fully paid or credited as fully paid.

Fractional Consolidated Shares will not be issued by the Company to Shareholders. Any fractional Consolidated Shares will be aggregated, and if possible, sold and retained for the benefit of the Company.

Upon the Share Consolidation becoming effective, the Consolidated Shares will rank pari passu in all respects with each other and the Share Consolidation will not result in any change in the relative rights of the Shareholders.

Save for the necessary professional expenses for the implementation of the Share Consolidation, the implementation of the Share Consolidation will not alter the underlying assets, business operation, management or financial position of the Company and the interests and rights of the Shareholders.

An application will be made by the Company to the Listing Division of the Stock Exchange for the listing of, and the permission to deal in, the Consolidated Shares in issue and to be issued upon the Share Consolidation becoming effective. Subject to the granting of the listing of, and permission to deal in the Consolidated Shares on the Stock Exchange, the Consolidated Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Consolidated Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second settlement day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

LETTER FROM THE BOARD

Conditions of the Share Consolidation

The Share Consolidation is conditional upon the satisfaction of the following conditions:

- (a) the passing of an ordinary resolution by the Shareholders approving the Share Consolidation at the SGM; and
- (b) the Listing Division of the Stock Exchange granting the listing of, and permission to deal in, the Consolidated Shares in issue upon the Share Consolidation becoming effective.

New shares issuable

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

Description	Number of Shares issuable	Number of Consolidated Shares issuable (Note 2)
Unlisted Warrants	685,000,000	68,500,000
The First Series CB	730,000,000	73,000,000
The Second Series CB (Note 1)	3,348,750,000	334,875,000
Outstanding options granted under New Share Option Scheme (Note 1)	104,022,000	10,402,200
Outstanding options granted under Post-IPO Share Option Scheme (Note 1)	124,255,233	12,425,523

Notes:

1. Mr. Sin, being one of the holders of the Second Series CB (in the aggregate principal amount of HK\$261,660,000 convertible into 2,336,250,000 Shares) and one of the Share Option Holders (attaching subscription rights to subscribe for an aggregate of 110,501,615 Shares), and Miss Law being one of the Share Option Holders (attaching subscription rights to subscribe for an aggregate of 72,101,615 Shares) have unconditionally and irrevocably undertaken to the Company and the Underwriter, among other things, that they will not exercise any of their conversion rights or exercise rights under the Second Series CB and Share Options up to and including the Record Date. In addition, they will remain as the beneficial owners of the Shares or Consolidated Shares (as the case may be) held by them until and including the Record Date and they have agreed to subscribe for a total of 585,834,000 Rights Shares and 20,016,000 Rights Shares respectively, being their full entitlements under the Rights Issue.

LETTER FROM THE BOARD

2. The number of Consolidated Shares issuable upon the Share Consolidation becoming effective has not taken into account the adjustment (if any) to the conversion and subscription prices of all series of Convertible Bonds, the Unlisted Warrant and the Share Options granted under the Post- IPO Share Option Scheme and New Share Option Scheme, respectively, as a result of the Right Issue.

Reasons for the Share Consolidation

The Share Consolidation will increase the nominal value of the Share and will reduce the total number of Shares currently in issue. As such, it is expected that the Share Consolidation will bring about a corresponding upward adjustment in the trading price of the Consolidated Shares and reduce the overall transaction costs of dealing in the Consolidated Shares. The Share Consolidation will also provide flexibility for equity fund raising of the Company in the future and to facilitate the Rights Issue. Accordingly, the Board is of the view that the Share Consolidation is beneficial to the Company and the Shareholders as a whole.

Odd lots arrangements and matching services

In order to alleviate the difficulties arising from the existence of odd lots of Consolidated Shares, a designated broker will be appointed to match the sale and purchase of odd lots of the Consolidated Shares at the relevant market price per Consolidated Share for the period from Monday, 21 July 2014 to Friday, 8 August 2014 (both dates inclusive). Holders of odd lots of the Consolidated Shares should note that successful matching of the sale and purchase of odd lots of the Consolidated Share is not guaranteed.

If you are in any doubt as to the above arrangements, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

Free exchange of share certificates

Subject to the Share Consolidation becoming effective, which is expected to be on Monday, 7 July 2014, Shareholders may, from Monday, 7 July 2014 to Tuesday, 12 August 2014 (both dates inclusive), submit certificates for the Shares to the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for exchange, at the expense of the Company, for certificates for the Consolidated Shares. Thereafter, certificates for the Shares will be accepted for exchange only on payment of a fee of the higher of HK\$2.50 or such other amount as may from time to time be specified by the Stock Exchange for each certificate issued or cancelled. Certificates for the Shares will continue to be good evidence of legal title and may be exchanged for certificates for Consolidated Shares at any time at the expense of the Shareholders.

The new share certificates for the Consolidated Shares will be Yellow in color so as to be distinguished from the existing share certificates which are Red in color.

LETTER FROM THE BOARD

3. PROPOSED RIGHTS ISSUE

The Rights Issue is proposed to take place after and is conditional upon the Share Consolidation becoming effective.

Issue statistics

Basis of the Rights Issue	Six (6) Rights Shares for every Consolidated Share held on the Record Date
Number of Shares in issue as at the Latest Practicable Date	4,126,270,695 Shares
Number of Consolidated Shares in issue assuming the Share Consolidation has become effective	412,627,069 whole Consolidated Shares (assuming no further issue of new Shares or repurchase of Shares up to the effective date of the Share Consolidation)
Number of Rights Shares	Not less than 2,475,762,414 Rights Shares, representing 600% of the Company's issued share capital as at the Latest Practicable Date (assuming the Share Consolidation has become effective) and 85.71% of the enlarged issued share capital of the Company upon completion of the Rights Issue (assuming no further issue of new Shares or Consolidated Shares or repurchase of Shares or Consolidated Shares on or before the Record Date) and not more than 3,959,666,814 Rights Shares, representing 959.62% of the Company's issued number of share as at the Latest Practicable Date (assuming the Share Consolidation has become effective) and 85.71% of the enlarged issued share capital of the Company upon completion of the Rights Issue (assuming Shares or Consolidated Shares are issued upon the exercise of the subscription rights attached to the Unlisted Warrant in full, and the exercise the Excluded Share Options and the conversion rights attached to Convertible Bonds in full (other than those convertible securities held by Mr. Sin and Miss Law) and no other issue of Shares or Consolidated Shares on or before the Record Date, details can be referred to the table as set out under the heading "New Shares Issuable" above.)

LETTER FROM THE BOARD

Aggregate nominal value of the Rights Shares to be issued	Not less than approximately HK\$247,576,241.40 and not more than approximately HK\$395,966,681.40
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Subscription Price	HK\$0.188 per Rights Share with nominal value of HK\$0.10 each
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Save for the table as set out under the heading “New Shares Issuable” above, 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.

Qualifying Shareholders

The Company will send the Prospectus Documents to the Qualifying Shareholders.

To qualify for the Rights Issue, a Shareholder must:

1. be registered as a member of the Company at the close of business on the Record Date; and
2. be a Qualifying Shareholder.

In order to be registered as members of the Company at the close of business on the Record Date, Shareholders must lodge any transfers of Shares or Consolidated Shares (as the case may be) (together with the relevant share certificates) with the Company’s branch share registrar in Hong Kong, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration by no later than 4:30 p.m. on Wednesday, 9 July 2014.

Closure of register of members

The register of members of the Company will be closed from Thursday, 10 July 2014 to Monday, 14 July 2014 both dates inclusive, for the purpose of ascertaining entitlements to the Rights Issue. No transfer of Shares or Consolidated Shares (as the case may be) will be registered during this period.

LETTER FROM THE BOARD

Overseas Shareholders and Non-Qualifying Shareholders

The Prospectus Documents will not be registered or filed under the applicable securities or equivalent legislation of any jurisdiction other than Hong Kong. The Company will make enquiries pursuant to the GEM Listing Rules regarding the feasibility of extending the Rights Issue to the Overseas Shareholders. If, based on legal opinions, the Directors consider that it is necessary or expedient not to offer the Rights Shares to the Overseas Shareholders on account either of the legal restrictions under the laws of the relevant place(s) or the requirements of the relevant regulatory body or stock exchange in that (those) place(s), the Rights Issue will not be available to such Overseas Shareholders. Further information in this connection will be set out in the Prospectus. The Company will send copies of the Prospectus to the Non-Qualifying Shareholders for their information only, but will not send any PAL and EAF to them.

Arrangements will be made for the Rights Shares which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders to be sold in the market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses, of more than HK\$100 will be paid pro rata to the Non-Qualifying Shareholders. The Company will retain individual amounts of HK\$100 or less for the benefits of the Company. Any unsold entitlement of the Non-Qualifying Shareholders, together with any Rights Shares provisionally allotted but not accepted, will be made available for excess application on EAFs by the Qualifying Shareholders.

Based on the register of members of the Company as at the Latest Practicable Date, the Company is not aware of any Overseas Shareholders.

Overseas Shareholders should note that they may or may not be entitled to the Rights Issue, subject to the results of enquiries made by the Directors pursuant to Rule 17.41(1) of the GEM Listing Rules. Accordingly, Overseas Shareholders should exercise caution when dealing in the Shares.

Subscription Price

The Subscription Price for the Rights Shares is HK\$0.188 per Rights Share, payable in full by the Qualifying Shareholders upon acceptance of the relevant provisional allotment of the Rights Shares and, where applicable, application for excess Rights Shares under the Rights Issue or when a transferee of the nil-paid Rights Shares applies for the Rights Shares.

LETTER FROM THE BOARD

The Subscription Price represents:

- (i) a discount of approximately 70.16% to the theoretical closing price of HK\$0.063 per Consolidated Share, based on the closing price of HK\$0.063 per Share as quoted on the Stock Exchange on the Last Trading Day and adjusted taking into account the effect of the Share Consolidation;
- (ii) a discount of approximately 25.10% to the theoretical ex-rights price of approximately HK\$0.251 per Consolidated Share, based on the closing price of HK\$0.063 per Share as quoted on the Stock Exchange on the Last Trading Day and adjusted taking into account the effect of the Share Consolidation;
- (iii) a discount of approximately 71.34% to the average theoretical closing price of approximately HK\$0.656 per Consolidated Share, based on the average closing price of HK\$0.0656 per Share as quoted on the Stock Exchange from 25 April 2014 to 2 May 2014, both dates inclusive, being the last five consecutive trading days up to and including the Last Trading Day and adjusted taking into account the effect of the Share Consolidation; and
- (iv) a discount of approximately 39.35% to the adjusted closing price of HK\$0.31 per Consolidated Share based on the closing price of HK\$0.031 per Share as quoted on the Stock Exchange on the Latest Practicable Date and adjusted taking into account the effect of the Share Consolidation.

The Subscription Price was determined after arm's length negotiations between the Company and the Underwriter with reference to the market price of the Shares under the prevailing market conditions and taking into consideration the effect of the Share Consolidation. Since the Shares have a very low liquidity in the open market, and taking into consideration the operating environment of the Group as well as the general economic uncertainties as at the date of entering into the Underwriting Agreement and the effect of the Share Consolidation, it would be difficult to attract the Shareholders to reinvest in the Company through the Rights Issue if the Subscription Price was not set at rather substantial discount as described above. The Directors (excluding the independent non-executive Directors who will give their view on the Rights Issue after taking into account the advice of the Independent Financial Adviser) consider that the discount of the Subscription Price would encourage the Shareholders to participate in the Rights Issue and accordingly maintain their pro-rata shareholdings in the Company and participate in the future growth of the Group, and that the terms of the Rights Issue (including the commission paid to the Underwriter) are fair and reasonable and in the best interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

The net price per Rights Share (after deduction of expenses, including the commission paid to the Underwriter) upon full acceptance of the provisional allotment of the Rights Shares by the Qualifying Shareholders (assuming no further issue of new Shares or Consolidated Shares or repurchase of Shares or Consolidated Shares on or before the Record Date) will be approximately HK\$0.181.

Basis of provisional allotment

The basis of the provisional allotment will be six Rights Shares for every Consolidated Share in issue and held as at the close of business on the Record Date, being not less than 2,475,762,414 Rights Shares and not more than 3,959,666,814 Rights Shares at the Subscription Price payable in full on acceptance by the Qualifying Shareholders and otherwise on the terms and subject to the conditions set out in the Underwriting Agreement and the Prospectus Documents.

Fractions of Rights Shares

On the basis of provisional allotment of six(6) Rights Shares for every Consolidated Share held by the Qualifying Shareholders on the Record Date, no fractional entitlements to the Rights Shares will arise under the Rights Issue.

Status of Rights Shares

The Rights Shares, when allotted and fully paid, will *rank pari passu* in all respects with the Consolidated Shares then in issue. Holders of the fully-paid Rights Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment of the Rights Shares in their fully-paid form.

Application for excess Rights Shares

Qualifying Shareholders shall be entitled to apply for any unsold entitlements of the Non-Qualifying Shareholders and any Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders. Application may be made only by the Qualifying Shareholders and only by completing an EAF and lodging the same with a separate remittance for the excess Rights Shares being applied for. The Directors will allocate the excess Rights Shares at their discretion on a pro-rata basis in proportion to the number of excess Rights Shares being applied for under each application.

In the event that the Directors consider that certain applications may have been made with the intention to abuse the above mechanism, the Directors may change the allocation method for the excess Rights Shares to one which is on a fair and equitable basis.

No preference will be given to topping-up odd lots to whole board lots. Shareholders who have been offered odd lots of the Rights Shares should note that there is no guarantee that such odd lots of the Rights Shares will be topped up to create whole board lots pursuant to applications for excess Rights Shares.

LETTER FROM THE BOARD

Shareholders with their Shares or Consolidated Shares (as the case may be) held by a nominee company should note that the Board will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, Shareholders should note that the aforesaid arrangement in relation to the allocation of the excess Rights Shares will not be extended to the beneficial owners individually. Shareholders with their Shares or Consolidated Shares (as the case may be) held by a nominee company are advised to consider whether they would like to arrange for the registration of the relevant Shares or Consolidated Shares (as the case may be) in the name of the beneficial owner(s) prior to the Record Date.

Shareholders whose Shares or Consolidated Shares (as the case may be) are held by their nominees and who would like to have their names registered on the register of members of the Company must lodge all the necessary documents with the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration by 4:30 p.m. on Wednesday, 9 July 2014.

Share Certificates and refund cheques for Rights Issue

Subject to the fulfillment of the conditions of the Rights Issue, certificates for all fully-paid Rights Shares are expected to be posted to those entitled thereto by ordinary post at their own risk on or before Tuesday, 5 August 2014. Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares (if any) are expected to be posted on or before Tuesday, 5 August 2014 by ordinary post to the applicants at their own risk.

Application for listing

The Company will apply to the Listing Division of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms.

Subject to the granting of the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange or such other dates as may be determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Dealings in the Rights Shares in both their nil-paid and fully-paid forms, which are registered in the register of members of the Company in Hong Kong, will be subject to the payment of stamp duty, Stock Exchange trading fee, transaction levy and any other applicable fees and charges in Hong Kong.

LETTER FROM THE BOARD

Irrevocable undertaking

As at the Latest Practicable Date, Mr. Sin and Miss Law hold 976,390,000 Shares and 33,360,000 Shares respectively (or 97,639,000 Consolidated Shares and 3,336,000 Consolidated Shares respectively upon the Share Consolidation becoming effective), representing 23.66% and 0.81% of the existing issued share capital of the Company. Pursuant to the Irrevocable Undertaking, Mr. Sin, being one of the holders of the Second Series CB (in the aggregate principal amount HK\$261,660,000 convertible into 2,336,250,000 Shares) and one of the Share Options Holders (attaching subscription rights to subscribe for an aggregate of 110,501,615 Shares), and Miss Law being one of the Share Options Holders ((attaching subscription rights to subscribe for an aggregate of 72,101,615 Shares) have unconditionally and irrevocably undertaken to the Company and the Underwriter, among other things, that they will not exercise any of their conversion rights or exercise rights under the Second Series CB and the Share Options up to and including the Record Date. In addition, they will remain as the beneficial owners of the Shares or Consolidated Shares (as the case may be) held by them respectively until and including the Record Date and they have agreed to subscribe for a total of 585,834,000 Rights Shares and 20,016,000 Rights Shares respectively, being their full entitlements under the Rights Issue.

Conditions of the Rights Issue

The Rights Issue is conditional upon the following conditions being fulfilled or waived (as applicable):

- (i) the passing of all the necessary resolution(s) (i) by the Shareholders (where applicable, the independent Shareholders) at the SGM and the Board to approve (i) the Share Consolidation; and (ii) the Rights Issue and the transactions contemplated under the Underwriting Agreement, by no later than the Posting Date;
- (ii) the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively one copy of the Prospectus Documents each duly signed by two directors of the Company (or by their agents duly authorised in writing) in accordance with section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong) as having been approved by resolutions of the directors of the Company (and all other documents required to be attached thereto) and otherwise in compliance with the GEM Listing Rules and the Companies Ordinance not later than the Posting Date;
- (iii) the posting of the Prospectus Documents to the Qualifying Shareholders and the posting of the Prospectus and a letter in the agreed form to the Non-Qualifying Shareholders, if any, for information purpose only explaining the circumstances in which they are not permitted to participate in the Rights Issue on or before the Posting Date;

LETTER FROM THE BOARD

- (iv) the Listing Division of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in the Consolidated Shares and the Rights Shares (in their nil-paid and fully-paid forms) by no later than the first day of their dealings;
- (v) the filing and registration of the Prospectus Documents (together with any other documents required by applicable law or regulation to be annexed thereto) with the Registrar of Companies in Hong Kong by no later than the Posting Date;
- (vi) the Underwriting Agreement not being terminated by the Underwriter pursuant to the terms thereof on or before 4:00 p.m. on Friday, 1 August 2014;
- (vii) compliance with and performance by the Company of all the undertakings and obligations under the terms of the Underwriting Agreement; and
- (viii) compliance by Mr. Sin and Miss. Law of the Irrevocable Undertaking prior to the Record Date.

In the event that the above conditions (the conditions (i) to (vi) are incapable of being waived) have not been satisfied or waived (as the case may be) by or the relevant dates set out herein and being no later than 31 August 2014 or, in each case, such other date or time as the Company and the Underwriter may agree in writing, all liabilities of the parties to the Underwriting Agreement shall cease and determine and none of the parties shall have any claim against the other save that all such reasonable costs, fees and other out-of-pocket expenses which have been properly incurred by the Underwriter in connection with the underwriting of the Underwritten Shares by the Underwriter (excluding the underwriting commission, sub-underwriting fees and related expenses) shall, to the extent agreed by the Company, be borne by the Company.

THE UNDERWRITING AGREEMENT

Date : 2 May 2014

Underwriter : Emperor Securities Limited, to the best of the Directors' knowledge, information and belief having made all reasonable enquires, Emperor Securities Limited and its ultimate beneficial owners are third parties independent of and not connected with the Company and its connected persons

LETTER FROM THE BOARD

- Total number of Rights Shares being underwritten by the Underwriter : The Underwriter has conditionally agreed pursuant to the Underwriting Agreement to underwrite the Rights Shares not subscribed by the Qualifying Shareholders on a fully underwritten basis, being not less than 1,869,912,414 Rights Shares and not more than 3,353,816,814 Rights Shares (excluding the number of the Rights Shares agreed to be taken up by Mr. Sin and Miss Law pursuant to the Irrevocable Undertaking), subject to the terms and conditions of the Underwriting Agreement
- Commission : 2.5% of the aggregate Subscription Price of the Underwritten Shares (for the avoidance of doubt, it shall mean the maximum amount of the Underwritten Shares) as determined on the Record Date

The Board considers that the terms of the Underwriting Agreement including the commission rate accord with the market practice and are fair and reasonable so far as the Company and the Shareholders are concerned.

TERMINATION AND RESCISSION OF THE UNDERWRITING AGREEMENT

The Underwriter may terminate or rescind (as the case may be) the arrangements set out in the Underwriting Agreement by notice in writing issued to the Company at any time prior to 4:00 p.m. on Friday, 1 August 2014 if there occurs:

- (A) the Underwriter shall become aware of the fact that the undertakings provided by each of the Company, Mr. Sin and Miss Law are not duly complied with or shall have reasonable cause to believe that any of the warranties in the Underwriting Agreement was untrue, inaccurate, misleading or breached, and in each case the same is (in the absolute opinion of the Underwriter) material in the context of the Rights Issue; or
- (B) there shall be:
 - (i) any new law or regulation is enacted, or there is any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority, whether in Hong Kong or elsewhere;
 - (ii) any change in local, national or international financial, political, industrial or economic conditions;
 - (iii) any change of an exceptional nature in local, national or international equity securities or currency markets;

LETTER FROM THE BOARD

- (iv) any local, national or international outbreak or escalation of hostilities, insurrection or armed conflict;
- (v) any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange;
- (vi) any suspension in the trading of the Shares or Consolidated Shares on the Stock Exchange for a continuous period of 7 trading days (as defined in the GEM Listing Rules);
- (vii) any change or development involving a prospective change in taxation or exchange controls in Hong Kong or elsewhere

which is or are, in the absolute opinion of the Underwriter:–

- (a) likely to have a material adverse effect on the business, financial position or prospects of the Group taken as a whole; or
- (b) likely to have a material adverse effect on the success of the Rights Issue or the level of Rights Shares to be taken up; or
- (c) so material as to make it inappropriate, inadvisable or inexpedient to proceed further with the Rights Issue.

Upon giving of notice of termination or rescission pursuant to the Underwriting Agreement, all obligations of the Underwriter under the Underwriting Agreement shall cease and determine and none of the parties to the Underwriting Agreement shall have any claim against the other parties in respect of any matter or thing arising out of or in connection with the Underwriting Agreement save for any antecedent breach of the Underwriting Agreement and the Company shall remain liable to pay to the Underwriter such fees and expenses (but not the underwriting commission) referred to in the Underwriting Agreement. If the Underwriter exercises such rights, the Rights Issue will not proceed.

LETTER FROM THE BOARD

SHAREHOLDING STRUCTURE OF THE COMPANY

For illustration purpose only, set out below is the shareholding structure of the Company from the Latest Practicable Date to immediately after completion of the Rights Issue:

Scenario 1:

Assuming no further issue of new Shares or Consolidated Shares or repurchase of Shares or Consolidated Shares on or before the Record Date:

								Immediately after completion of the Rights Issue Assuming the Underwriter takes up all the Underwritten Shares (assuming no Qualifying Shareholders except for Mr. Sin and Miss Law take up in aggregate of 605,850,000 Rights Shares pursuant to the Irrevocable Undertaking) in accordance with its underwriting commitment under the Underwriting Agreement	
As at the date of this circular		Immediately after the Share Consolidation becoming effective but before completion of the Rights Issue		Assuming all Shareholders take up all the Rights Shares (assuming there is no Non-Qualifying Shareholder)					
Number of Shares	%	Number of Consolidated Shares	%	Number of Consolidated Shares	%	Number of Consolidated Shares	%	Number of Consolidated Shares	%
Directors:									
Mr. Sin (Note 1)	976,390,000	23.66	97,639,000	23.66	683,473,000	23.66	683,473,000	23.66	
Miss Law (Note 1)	33,360,000	0.81	3,336,000	0.81	23,352,000	0.81	23,352,000	0.81	
Substantial Shareholder:									
Tse Young Lai	805,068,000	19.51	80,506,800	19.51	563,547,600	19.51	80,506,800	2.79	
Public Shareholders:									
The sub-underwriters and the subscribers procured by them to take up the Rights Shares (Notes 3 & 4)									
	–	–	–	–	–	–	1,869,912,414	64.74	
Other public Shareholders	2,311,452,695	56.02	231,145,269	56.02	1,618,016,883	56.02	231,145,269	8.00	
Total	<u>4,126,270,695</u>	<u>100.00</u>	<u>412,627,069</u>	<u>100.00</u>	<u>2,888,389,483</u>	<u>100.00</u>	<u>2,888,389,483</u>	<u>100.00</u>	

LETTER FROM THE BOARD

Scenario 2:

Assuming Shares or Consolidated Shares issued pursuant to the exercise of the subscription rights attached to the Unlisted Warrants in full, and the exercise of the Excluded Share Options and the conversion rights attached to the Excluded CB in full on or before the Record Date and no other issue of Shares or Consolidated Shares:

	As at the date of this circular		Assuming Shares or Consolidated Shares are issued upon the exercise of the subscription rights attached to the Unlisted Warrants in full, and the exercise of the Excluded Share Options and the conversion rights attached to the Excluded CB in full, but before the Share Consolidation becoming effective		Immediately after the Share Consolidation becoming effective but before completion of the Rights Issue		Immediately after completion of the Rights Issue		Assuming all Shareholders take up all the Rights Shares (assuming there is no Non-Qualifying Shareholder)		Assuming the Underwriter takes up all the Underwritten Shares (assuming no Qualifying Shareholders except for Mr. Sin and Miss Law take up in aggregate of 605,850,000 Rights Shares pursuant to the Irrevocable Undertaking) in accordance with its underwriting commitment under the Underwriting Agreement	
	Number of Shares	%	Number of Shares	%	Number of Shares	%	Number of Consolidated Shares	%	Number of Consolidated Shares	%	Number of Consolidated Shares	%
Directors:												
Mr. Sin (Notes 1 & 2)	976,390,000	23.66	976,390,000	14.80	97,639,000	14.80	683,473,000	14.80	683,473,000	14.80	683,473,000	14.80
Miss Law (Notes 1 & 2)	33,360,000	0.81	33,360,000	0.51	3,336,000	0.51	23,352,000	0.51	23,352,000	0.51	23,352,000	0.51
Substantial Shareholders:												
Tse Young Lai	805,068,000	19.51	805,068,000	12.19	80,506,800	12.19	563,547,600	12.19	80,506,800	1.74		
The Underwriter (Notes 3 & 4)	-	-	-	-	-	-	-	-	1,363,816,814	29.52		
Public Shareholders:												
Holders of Excluded CB, Unlisted Warrants and Excluded Share Options (Note 2)	-	-	2,473,174,003	37.48	247,317,400	37.48	1,731,221,800	37.48	247,317,400	5.35		
The sub-underwriters and the subscribers procured by them to take up the Rights Shares (Notes 3 & 4)	-	-	-	-	-	-	-	-	1,990,000,000	43.08		
Other public Shareholders	2,311,452,695	56.02	2,311,452,695	35.02	231,145,269	35.02	1,618,016,883	35.02	231,145,269	5.00		
Total	4,126,270,695	100.00	6,599,444,698	100.00	659,944,469	100.00	4,619,611,283	100.00	4,619,611,283	100.00		

LETTER FROM THE BOARD

Notes

1. Mr. Sin and Miss Law together beneficially owned 1,009,750,000 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 was also deemed to be interested in all the Shares in which Miss Law was interested.
2. As at the Latest Practicable Date, (i) the outstanding First Series CB in the aggregate principal amount of HK\$83,950,000 were convertible into 730,000,000 Shares at HK\$0.115 per Share; (ii) the outstanding Second Series CB in the aggregate principal amount of HK\$375,060,000 were convertible into 3,348,750,000 Shares at HK\$0.112 per Share, (iii) the outstanding Unlisted Warrants in the aggregate amount of HK\$78,775,000 were carrying rights to subscribe for 685,000,000 Shares at HK\$0.115 per Share and (iv) the outstanding Share Options were attaching subscription rights to subscribe for an aggregate of 228,277,233 Shares.

Pursuant to the Irrevocable Undertaking, Mr. Sin, being one of the holders of the Second Series CB (in the aggregate principal amount of HK\$261,660,000 convertible into 2,336,250,000 Shares) and holder of Share Options (attaching subscription rights to subscribe for an aggregate of 110,501,615 Shares) and Miss Law being one of the holders of the Share Options (attaching subscription rights to subscribe for an aggregate of 72,101,615 Shares) have unconditionally and irrevocably undertaken to the Company and the Underwriter, among other things, that they will not exercise any of his conversion rights or exercise rights under the Second Series CB and Share Options up to and including the Record Date. In addition, they will remain as the beneficial owners of the Shares or Consolidated Shares (as the case may be) held by them respectively until and including the Record Date and they have agreed to subscribe for a total of 585,834,000 Rights Shares and 20,016,000 Rights Shares respectively, being their full entitlements under the Rights Issue.

3. The Underwriter confirmed with the Company that it has sub-underwritten part or all of its underwriting obligations under the Underwriting Agreement to eight sub-underwriters. Pursuant to the sub-underwriting agreements entered into between the Underwriter and the sub-underwriters, the sub-underwriters have agreed, in aggregate, to sub-underwrite a maximum of 1,990,000,000 Rights Shares representing approximately 50.26% of the total number of Rights Shares and approximately 43.08% of the total number of Consolidated Shares in issue after the Rights Issue (assuming Shares or Consolidated Shares issued pursuant to the exercise of the subscription rights attached to the Unlisted Warrants in full, and the exercise of the Share Options and the conversion rights attached to Convertible Bonds in full and no other issue of Shares or Consolidated Shares on or before the Record Date). In the shareholding tables above, the Untaken Shares are assumed to be taken up by the sub-underwriters at their maximum sub-underwriting commitment.

LETTER FROM THE BOARD

4. Pursuant to the terms of the Underwriting Agreement, the Underwriter shall not subscribe, for its own account, for such number of Untaken Shares which will result in the itself and parties acting in concert with it in the Company to own 30% or more of the voting rights of the Company upon the completion of the Rights Issue. In addition, the Underwriter shall ensure that (i) each of the sub-underwriters and independent placees and/or subscribers procured by any of them shall be third party independent of, not acting in concert (within the meaning of the Takeovers Code) with and not connected with the directors or chief executive of the Company or substantial Shareholders of the Company or their respective associates; (ii) save for the Underwriter itself and its associates, each of the independent placees procured by the sub-underwriters shall not, together with any party acting in concert (within the meaning of the Takeovers Code) with them, hold 10% or more of the voting rights of the Company upon completion of the Rights Issue; and (iii) each of the sub-underwriters to procure independent placees to take up such number of Untaken Shares as necessary to ensure that the public float requirements under Rule 11.23 of the GEM Listing Rules are complied with by the Company.
5. The shareholding structure is presented without taking into account the adjustment (if any) to the conversion and subscription prices of the Convertible Bonds, the Unlisted Warrants and the Share Options, respectively, as a result of the Rights Issue.

REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS

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.

The gross proceeds from the Rights Issue will be not less than approximately HK\$465.44 million (assuming no further issue of new Shares or Consolidated Shares or repurchase of Shares or Consolidated Shares on or before the Record Date) but not more than approximately HK\$744.42 million (assuming Shares or Consolidated Shares issued pursuant to the exercise of the subscription rights attached to the Unlisted Warrants in full, and the exercise of the Share Options and the conversion rights attached to Convertible Bonds in full and no other issue of Shares or Consolidated Shares on or before the Record Date). The estimated net proceeds from the Rights Issue will be not less than approximately HK\$448.35 million (assuming no further issue of new Shares or Consolidated Shares or repurchase of Shares or Consolidated Shares on or before the Record Date) but not more than approximately HK\$727.33 million (assuming Shares or Consolidated Shares are issued upon the exercise of the subscription rights attached to the Unlisted Warrants in full, and the exercise of the Share Options and the conversion rights attached to Convertible Bonds in full and no other issue of Shares or Consolidated Shares on or before the Record Date) which are intended to be used as to (i) not less than HK\$400,000,000 and not more than HK\$550,000,000 for repayment of liabilities of the Group, and (ii) the remaining balance will be used as general working capital of the Group including the settlement for construction cost of the film studio and hotel of the Group in the PRC.

LETTER FROM THE BOARD

For the net proceeds of not less than HK\$400,000,000 and not more than HK\$ 550,000,000 for repayment of liabilities of the Group, the Directors intend to apply such proceeds to repay the liabilities of the Group in the following sequence:

- 1) To repay the loans from an independent third party with aggregate outstanding principal amount of HK\$121,000,000 and the accrued interest, which the Company has the right of early repayment before the repayment due date.
- 2) To redeem the outstanding First Series CB which were held by independent third parties as at the Latest Practicable Date in the aggregate principal amount of HK\$83,950,000 and the accrued interest.
- 3) To redeem the outstanding Second Series CB held by Mr. Sin (with aggregate principal amount of HK\$261,660,000 as at the Last Practicable Date.), which Mr. Sin offered to waive the accrued interest up to the date of repayment and to provide a discount of 3% on the principal amount if the Company redeem the outstanding Second Series CB with principal amount of not less than HK\$200,000,000 held by him on or before 31 August 2014.
- 4) To repay other loans or borrowings from independent third parties (with aggregate principal amount of HK\$86,600,000 as at the Last Practicable Date).

LETTER FROM THE BOARD

According to the annual reports of the Company for the year ended 31 December 2013, the total assets and total liabilities of the Group was approximately HK\$1,572 million and approximately HK\$863 million respectively. The gearing ratio, being total liabilities divided by total assets, of the Group as at 31 December 2013 was approximately 54.9%, which the Directors intend to reduce and maintain at a level of 40% or below. The Group also recorded net loss for the year ended 31 December 2013 of approximately HK\$24,225,000, of which approximately HK\$20,692,000 was attributed by the finance costs. With the net proceeds from Rights Issue of not less than HK\$448.35 million applying to reduce the indebtedness of the Group, the gearing ratio would be improved and the interest burden will be reduced and hence improving the financial position and profitability of the Group. In view of the above positive financial effects on the Group, the Directors consider that it is prudent for the Company to raise fund through the Rights Issue for the repayment of outstanding borrowing of the Group, which are beneficial to the long term growth of the Group.

Based on the aforesaid and taking into account that the Rights Issue will give the Qualifying Shareholders the opportunity to maintain their respective pro rata shareholding interests in the Company and to continue to participate in the future development of the Group, the Board considers that the Rights Issue is in the interests of the Company and the Shareholders as a whole.

Financing methods

The Company has considered other financing methods such as placing of Consolidated Shares or other convertible securities and banking facilities.

(a) Placing

In regard to placing of the Consolidated Shares, the Directors are of the view that given the substantial amount of the Consolidated Shares to be issued, a placing would cause material dilution effect to the shareholding of the existing Shareholders. As fund raising through placing would deprive the rights of Shareholders to maintain their proportional shareholdings, and not all Shareholders would be offered the opportunity to participate, the Directors are of the view that it would not be in the interests of the Shareholders as a whole.

In regard to placing of other convertible securities, this may create interest payment obligations on the Group and increase the gearing and incur further interest burden to the Company. In addition, the convertible securities holders may exercise the rights attached to the convertible securities leading to massive dilution to the interest of the existing Shareholders as they will not be able to participate on an equitable basis.

(b) Banking facilities

In regard of banking facilities, this will create interest payment obligations on the Group and increase the gearing and incur further interest burden to the Company, the Directors are of the view that it would not be in the interests of the Shareholders as a whole.

LETTER FROM THE BOARD

(c) Rights Issue

As rights issue is a pre-emptive fund raising method and allow Shareholders to participate and maintain its pro-rata interests or increase its interests in the Company (if applicable), the Board (including the independent non-executive Directors) considers that the Rights Issue is the best available method for fund raising under the existing situation.

FUND RAISING ACTIVITIES INVOLVING ISSUE OF SECURITIES IN THE PAST 12 MONTHS

Set out below are the fund raising activities of the Company in the past twelve months immediately preceding the Latest Practicable Date:

Date of announcement	Fund raising activity	Net proceeds raised (approximately)	Proposed use of the net proceeds	Actual use of the net proceeds
16 April 2013	Placing of HK\$78,775,000 bonds and issue of unlisted warrants under specific mandate and placing of HK\$92,000,000 convertible bonds under Specific Mandate	Approximately HK\$160 million	As to (i) approximately HK\$135 million for the future expansion and investment of the Dream Work; (ii) approximately HK\$12 million for the development of theatre business; and (iii) approximately HK\$13 million for the general working capital of the Group.	Used as intended
9 July 2013	Issue of convertible bonds	HK\$420 million	For settlement of consideration to the vendor pursuant to an acquisition by the group	Used as intended

Save as abovementioned, the Company had not conducted any other fund raising exercise in the past twelve months immediately preceding the Latest Practicable Date.

LETTER FROM THE BOARD

ADJUSTMENTS TO THE SUBSCRIPTION PRICE AND/OR NUMBER OF SHARE UNDER THE SHARE OPTIONS, THE CONVERSION PRICE UNDER THE CONVERTIBLE BONDS AND THE SUBSCRIPTION PRICE UNDER THE UNLISTED WARRANTS

The Share Consolidation and the Rights Issue may lead to adjustments to the subscription price and/or the number of the Consolidated Shares to be issued under the outstanding options granted under the Share Options, the conversion price of the Convertible Bonds and the subscription price under the Unlisted Warrants pursuant to their respective terms. The Company will inform holders of the aforesaid securities and the Shareholders of such adjustments by announcement(s), if and when necessary.

TAXATION

Qualifying Shareholders are recommended to consult their professional advisers if they are in any doubt as to the tax implications of the holding or disposal of, or dealing in the Rights Shares in both their nil-paid and fully-paid forms, as regards the Non-Qualifying Shareholders, their receipt of the net proceeds of sale of the Rights Shares otherwise falling to be issued to them under the Rights Issue. It is emphasised that none of the Company, its Directors or any other parties involved in the Rights Issue accepts responsibility for any tax effects or liabilities of the holders of the Rights Shares resulting from the purchase, holding or disposal of, or dealing in the Rights Shares in both their nil-paid and fully-paid forms.

WARNING OF THE RISKS OF DEALING IN SHARES OR CONSOLIDATED AND RIGHTS SHARES

The Consolidated Shares will be dealt in on an ex-rights basis from Tuesday, 8 July 2014. Dealings in the Rights Shares in the nil-paid form will take place from Thursday, 17 July 2014 to Thursday, 24 July 2014 (both dates inclusive). If the conditions of the Rights Issue are not fulfilled or waived (as applicable) or the Underwriting Agreement is terminated or rescinded by the Underwriter, the Rights Issue will not proceed.

Any Shareholders or other persons contemplating selling or purchasing Rights Shares in their nil-paid form during the period from Thursday, 17 July 2014 to Thursday, 24 July 2014 (both dates inclusive) who are in any doubt about their position are recommended to consult their professional advisers. Any Shareholders or other persons dealing in the Shares or the Consolidated Shares up to the date when the conditions of the Rights Issue are fulfilled or waived (as applicable) (and the date on which the Underwriter's right of termination or rescission of the Underwriting Agreement ceases) and any persons dealing in the nil-paid Rights Shares during the period from Thursday, 17 July 2014 to Thursday, 24 July 2014 (both dates inclusive) will accordingly bear the risk that the Rights Issue could not become unconditional or does not proceed.

LETTER FROM THE BOARD

THE SGM

The SGM will be convened and held for the Shareholders and the Independent Shareholders (as the case may be) to consider and, if thought fit, approve the Share Consolidation and the Rights Issue respectively.

The Share Consolidation is subject to, among other things, the passing of resolution by the Shareholders approving the same at the SGM. No Shareholder has any material interest in the Share Consolidation. Therefore, no Shareholder is required to abstain from voting in this respect.

In compliance with Rule 10.29(1) of the GEM Listing Rules, the Rights Issue must be made conditional on approval of the Independent Shareholders by way of poll at the SGM. As at the Latest Practicable Date, the Company does not have any controlling Shareholder. The Directors (other than independent non-executive Directors), the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution relating to the Rights Issue and the transactions contemplated thereunder. As at the Latest Practicable Date, Mr. Sin, the Chairman of the Company and a non-executive Director holds 976,390,000 Shares and Miss Law, an executive Director, holds 33,360,000 Shares. Each of Mr. Sin and Miss Law and their respective associates will abstain from voting in favour of the resolution approving the Rights Issue and the transactions contemplated thereunder at the SGM in compliance with the GEM Listing Rules. If any of the Director(s) exercise their rights to subscribe for Shares pursuant to the Share Options before SGM, such Director(s) and their respective associates shall abstain from voting in favor of the Rights Issue.

The Independent Board Committee has been formed to advise the Independent Shareholders in connection with the Rights Issue and the transactions contemplating under the Underwriting Agreement. Beijing Securities Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the same.

RECOMMENDATION

In relation to the Rights Issue, you are advised to read carefully the letter from the Independent Board Committee and the letter of advice from Independent Financial Adviser set out on pages 36 to 37 and pages 38 to 60 respectively of this circular. The Independent Board Committee, having taken into account the advice of Independent Financial Adviser, considers that the terms of the Rights Issue are fair and reasonable so far as the Independent Shareholders are concerned and the Rights Issue is in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favor of the proposed resolution approving the Rights Issue and the transactions contemplated thereunder at the SGM.

LETTER FROM THE BOARD

Further, the Directors (including the independent non-executive Directors) believe that the Share Consolidation and the Rights Issue are in the interests of the Company and the Shareholders as a whole, therefore, the Directors (including the independent non-executive Directors) recommend the Shareholders or the Independent Shareholders (as the case may be) to vote in favor of the aforesaid resolutions to be proposed at the SGM.

ADDITIONAL INFORMATION

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

Yours faithfully,

On behalf of the Board

National Arts Entertainment and Culture Group Limited

Law Po Yee

Executive Director and Chief Executive Officer

LETTER FROM INDEPENDENT BOARD COMMITTEE

The following is the text of the letter of recommendation, prepared for the purpose of incorporation in this circular, from the Independent Board Committee to the Independent Shareholders regarding the Rights Issue:



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)

18 June 2014

To the Independent Shareholders

Dear Sir or Madam,

**PROPOSED RIGHTS ISSUE ON THE BASIS OF SIX RIGHT SHARES FOR EVERY
CONSOLIDATED SHARE HELD ON THE RECORD DATE**

We refer to the circular of the Company dated 18 June 2014 (the “Circular”) of which this letter forms part. Unless the context specifies otherwise, capitalized terms used herein have the same meanings as defined in the Circular.

We have been appointed by the Board to advise the Independent Shareholders as to whether the terms of Rights Issue are fair and reasonable insofar as the Independent Shareholders are concerned and whether the Rights Issue is in the interests of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote. Beijing Securities Limited has been appointed as the Independent Financial Adviser to advise you and us in this respect.

LETTER FROM INDEPENDENT BOARD COMMITTEE

Having taken into account the principal reasons and factors considered by, and the advice of Independent Financial Adviser as set out in its letter of advice to you and us on pages 38 to 60 of the Circular, we are of the opinion that the terms of the Rights Issue are fair and reasonable insofar as the Company and the Independent Shareholders are concerned and the Rights Issue is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Rights Issue and the transactions contemplated thereunder.

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

Mr. Chan Tin Lup, Trevor

Prof. Wong Lung Tak, Patrick

Mr. Chui Chi Yun, Robert

Mr. Li Kit Chee

Independent non-executive Directors

LETTER FROM INDEPENDENT FINANCIAL ADVISER

The following is the text of the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders for the purpose of incorporation into the Circular.

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

18 June 2014

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

PROPOSED RIGHTS ISSUE ON THE BASIS OF SIX RIGHTS SHARES FOR EVERY CONSOLIDATED SHARE HELD ON THE RECORD DATE

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue, details of which are set out in the letter from the Board (“**Letter from the Board**”) contained in the circular of the Company dated 18 June 2014 (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 2 May 2014, the Company announced (subject to, amongst others, the Share Consolidation becoming effective) to implement the Rights Issue on the basis of six (6) Rights Shares for every Consolidated Share held on the Record Date at the Subscription Price of HK\$0.188 per Rights Share to raise a minimum of approximately HK\$465.44 million before expenses (assuming no further issue of new Shares or Consolidated Shares or repurchase of Shares or Consolidated Shares on or before the Record Date) and up to a maximum of approximately HK\$744.42 million before expenses (assuming Shares or Consolidated Shares are issued upon the exercise of the subscription rights attached to the Unlisted Warrants in full, and the exercise of the Excluded Share Options and the conversion rights attached to Excluded CB in full and no other issue or repurchase of Shares or Consolidated Shares on or before the Record Date) by issuing not less than 2,475,762,414 Rights Shares and not more than 3,959,666,814 Rights Shares to the Qualifying Shareholders.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, Mr. Sin and Miss Law hold 976,390,000 Shares and 33,360,000 Shares respectively (or 97,639,000 Consolidated Shares and 3,336,000 Consolidated Shares respectively upon the Share Consolidation becoming effective), representing approximately 23.66% and 0.81% of the existing issued share capital of the Company. Pursuant to the Irrevocable Undertaking, Mr. Sin, being one of the holders of the Second Series CB and Share Option Holders, and Miss Law being one of the Share Option Holders have unconditionally and irrevocably undertaken to the Company and the Underwriter, among other things, that they will not exercise any of their conversion rights or exercise rights under the Second Series CB and the Share Options up to and including the Record Date. In addition, they will remain as the beneficial owners of the Shares or Consolidated Shares (as the case may be) held by them respectively until and including the Record Date and they have agreed to subscribe for a total of 585,834,000 Rights Shares and 20,016,000 Rights Shares respectively, being their full entitlements under the Rights Issue.

In compliance with Rule 10.29(1) of the GEM Listing Rules, the Rights Issue must be made conditional on approval by Independent Shareholders in the general meeting by a resolution on which any controlling Shareholders and their associates or, where there are no controlling shareholders, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the Rights Issue contemplated thereunder. As at the Latest Practicable Date, the Company has no controlling Shareholder. Therefore the Directors (excluding the independent non-executive Directors), and their associates (including Mr. Sin and Miss Law, who are interested in an aggregate of 1,009,750,000 Shares at the Latest Practicable Date, without taking into account of the interests in Shares held under the Share Options and Convertible Bonds) are required to abstain from voting in favour of the Rights Issue at the SGM. If any of the Director(s) exercise their rights to subscribe for Shares pursuant to the Share Options before the SGM, such Director(s) and their respective associates shall abstain from voting in favour of the Rights Issue.

The Board comprises of three executive Directors, three non-executive Directors, and four independent non-executive Directors. The Independent Board Committee, which is comprising of the independent non-executive Directors, namely Mr. Chan Tin Lup Trevor, Mr. Chui Chi Yun Robert, Mr. Li Kit Chee and Prof. Wong Lung Tak Patrick, has been established to advise the Independent Shareholders regarding the Rights Issue. 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.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Our role is to provide you with our independent opinion and recommendation as to (i) whether the Rights Issue is fair and reasonable and on normal commercial terms so far as the Independent Shareholders are concerned and is 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 Rights Issue.

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.

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.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of Beijing Securities Limited is to ensure that such information has been correctly and fairly presented and reproduced from the relevant sources.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS TAKEN INTO CONSIDERATION

In formulating our opinion in respect of the Rights Issue to the Independent Board Committee and the Independent Shareholders, we have considered the following principal factors and reasons:

1. Background information and outlook 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.

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

	Year ended 31 December	
	2013	2012
	HK\$'000	HK\$'000
Turnover	19,094	6,789
(Loss)/Profit before income tax	(17,682)	2,897
(Loss) for the year	(24,225)	(2,041)
	As at 31 December	
	2013	2012
	HK\$'000	HK\$'000
Total assets	1,572,053	1,007,741
Total liabilities	862,635	213,926
Net assets	709,418	793,815

We noted that for the year ended 31 December 2013, the turnover of the Group increased by more than 181% to approximately HK\$19.1 million from the previous 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 previous 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 of 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.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

As at 31 December 2013, the Company had total assets, total liabilities and net assets of approximately HK\$1,572.1 million, HK\$862.6 million and HK\$709.4 million respectively. According to the Annual Report, the major components of the total assets include approximately HK\$663.5 million of property, plant and equipment and approximately HK\$676.6 million of investment properties. Also according to the Annual Report, the total liabilities include total borrowings of approximately HK\$517.5 million which was comprised of approximately HK\$12.4 million loans from a related company, bonds of approximately HK\$74.2 million issued on 23 May 2013, the First Series CB of approximately HK\$79.3 million, the Second Series CB of approximately HK\$288.7 million, finance lease obligation of approximately HK\$17.9 million and other unsecured borrowings of approximately HK\$45.0 million. The Group also has gearing ratio (total liabilities divided by total assets) of approximately 0.55 as at 31 December 2013 as compared to a gearing ratio of approximately 0.21 in the previous year due to the issuance of the various bonds and convertible bonds in 2013. For more details of the bonds and the Convertible Bonds issued in 2013, please refer to the section headed “Reasons for the Rights Issue and use of proceeds” below.

Looking forward, the Group will continue to focus on its cultural and entertainment businesses and it is expecting most of the areas of Xiqiao National Arts Film Studio which is located in Foshan city, Guangdong Province, will be opened to tourists by the middle of 2014. Xiqiao National Arts Film Studio has a total developed land area of 444,000 square metres and is a unique studio which incorporates tourism and recreational facilities such as film shooting area, theme park, hotels, performing arts complex. When the Xiqiao National Arts Film Studio opens most of its areas to tourists and to film production process in the middle of 2014, the Group expects that the studio will become one of the tourist spots in Guangdong province which could attract tourists and provide them with unique experience. The Group is expecting that the revenue from operations therefrom such as filming base, hotels, tickets sales, cinema and wedding photography will contribute to the income of the Group.

2. Reasons for the Rights Issue and use of proceeds

As discussed with the management of the Company, having considered other fund raising alternatives for the Group, such as bank borrowings and placing of new Shares, and taking into account the benefits and cost of each of the alternatives, the Board considers that the Rights Issue allows the Group to strengthen its balance sheet without facing the increasing interest rates. The Board also considers that the Rights Issue is in the interests of the Company and the Shareholders as a whole as it offers all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and enables the Qualifying Shareholders to maintain their proportionate interests in the Company and continue to participate in the future development of the Group should they wish to do so.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

The gross proceeds and the estimated net proceeds from the Rights Issue will be not less than approximately HK\$465.44 million and HK\$448.35 million respectively (assuming no further issue of new Shares or Consolidated Shares or repurchase of Shares or Consolidated Shares on or before the Record Date) and not more than HK\$744.42 million and HK\$727.33 million respectively (assuming Shares or Consolidated Shares issued pursuant to the exercise of the subscription rights attached to the Unlisted Warrants in full, and exercise of the Excluded Share Options and the conversion rights attached to Excluded CB in full and no other issue of Shares or Consolidated Shares on or before the Record Date) which are intended to be used as to (i) not less than HK\$400,000,000 and not more than HK\$550,000,000 for repayment of liabilities of the Group, and (ii) the remaining balance will be used as general working capital of the Group including the settlement for construction cost of the film studio and hotel of the Group in the PRC.

As a reference, as set out in Appendix I of this Circular, the principal amounts of the outstanding borrowings of the Group, excluding the Group's finance lease obligation, amounted to approximately HK\$757,670,000 as at 30 April 2014. This is comprised of loans from a related company of approximately HK\$12,400,000, unsecured loan from a director of approximately HK\$8,000,000, borrowings of approximately HK\$199,485,000, bonds with principal amount of HK\$78,775,000, and convertible bonds including the First Series CB and the Second Series CB of HK\$459,010,000. As discussed with the management of the Company, the borrowings of the Group has been increased by approximately HK\$8 million up to the Latest Practicable Date which are mainly loans/borrowings from independent third parties.

The Directors intend to apply such proceeds (in the region of HK\$400,000,000 to HK\$550,000,000 as mentioned above) to repay certain liabilities of the Group as follows (the “**Proposed Repayment Schedule**”):

- 1) loans from an independent third party with aggregate outstanding principal amount of HK\$121,000,000 with interest rates ranging from 9.0% to 10.0% per annum as at the Latest Practicable Date and the accrued interest thereon;
- 2) First Series CB held by independent third parties with aggregate outstanding principal amount of HK\$83,950,000 which are convertible into 730,000,000 Shares and bears coupon interest at 7.5% per annum as at the Latest Practicable Date and the accrued interest thereon;
- 3) Second Series CB held by Mr. Sin with aggregate outstanding principal amount of HK\$261,660,000 as at the Latest Practicable Date, which Mr. Sin has offered to waive the repayment of the accrued interest up to the date of repayment and to provide a discount of 3% on the principal amount if the Company redeem the outstanding Second Series CB with principal amount of not less than HK\$200,000,000 holding by him on or before 31 August 2014; and

LETTER FROM INDEPENDENT FINANCIAL ADVISER

- 4) to apply the remaining amount to repay other loans or borrowings from independent third parties with aggregate principal amount of HK\$86,600,000 of which HK\$71,600,000 of the loans/borrowings are without early repayment penalty and have interest rates ranging from 3.0% to 11.0% per annum and the remaining loan/borrowing of HK\$15,000,000 with early repayment penalty has interest rate of 15.0% per annum as at the Latest Practicable Date.

We have discussed with the Company and reviewed the Proposed Repayment Schedule in conjunction with the list of total outstanding loans/borrowings up to the Latest Practicable Date and the principal terms thereon. We noted that the Proposed Repayment Schedule was determined based on a number of factors including the size of the loans, the dilution effect if there are conversion of shares, the magnitude of the accrued interest thereon as well as the expected magnitude of the interest payable in the future should these loans are not repaid. Furthermore, since the First Series CB bears coupon interest at 7.5% per annum and is also convertible into 730,000,000 Shares prior to its maturity date (i.e., 2 years from the date of issue, being 23 May 2013), the repayment of the First Series CB, besides decreasing the future interest payable, would also avoid potential issuance of new shares of the Company prior to its maturity. Therefore, we are of the view that the repayment of loans in the priority as set out in the Proposed Repayment Schedule will enable the Group to minimize interest expense as well as potential conversion effect to a good extent going forward. In light of the above, we are of the view that the intended use of proceeds for the repayment of liabilities as set out by the Group in the Proposed Repayment Schedule 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.

Furthermore, the Directors also intend to apply the remaining proceeds of the rights issue after the repayment of liabilities as listed above as general working capital of the Group including the settlement for construction cost of the film studio and hotel of the Group in the PRC. As stated in the section “Background information and outlook of the Group” above, the Group’s main focus going forward is on its cultural and entertainment businesses and it is expected that most of the areas of Xiqiao National Arts Film Studio will be opened to tourists by the middle of 2014. Xiqiao National Arts Film Studio has a total developed land area of 444,000 square metres and is a unique studio which incorporates tourism and recreational facilities such as film shooting area, theme park, hotels and performing arts complex. We have discussed with the Company and reviewed the working capital requirements of the Group, and in particular, in light of the proposed settlement of the construction cost of the film studio and hotel. Given that Xiqiao National Arts Film Studio is a major project of the Group and is a key source for future income, we are of the view that the remaining proceeds to be applied as general working capital of the Group including the settlement for the construction cost of the film studio and hotel of the Group in the PRC 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 INDEPENDENT FINANCIAL ADVISER

The table below sets out the fund raising exercises of the Company in the past twelve months immediately preceding the Latest Practicable Date:

Date of announcement	Fund raising activity	Net proceeds raised	Proposed use of the net proceeds	Actual use of the net proceeds
16 April 2013	Placing of HK\$78,775,000 bonds and issue of unlisted warrants under specific mandate and placing of HK\$92,000,000 convertible bonds under mandate	Approximately HK\$160 million	As to (i) approximately HK\$135 million for the future expansion and investment of the Dream Work; (ii) approximately HK\$12 million for the development of theatre business; and (iii) approximately HK\$13 million for the general working capital of the Group	Used as intended
9 July 2013	Issue of convertible bonds	HK\$420 million	For settlement of consideration for the acquisition of the remaining equity interest of Expand Pacific Limited and Head Return Limited which are principally engaged in the business of development and operation of film studio, theme park and hotel in the PRC	Used as intended

Save as abovementioned, the Company had not conducted any other fund raising exercise in the past twelve months immediately preceding the Latest Practicable Date was and will be used as planned.

Taking into account that (i) the proceeds from the Rights Issue will be used for the repayment of liabilities of the Group which will lower its interest costs and gearing ratio; (ii) placing of new Shares would not offer existing Shareholders the opportunity to participate in the Company's equity raising exercise and would result in the dilution of shareholdings of the existing Shareholders; and (iii) the Rights Issue will enable the Qualifying Shareholders to maintain their proportionate interests in the Company and continue to participate in the future development of the Group, we concur with the Directors that the Rights Issue is an appropriate financing means for the Company and we are of the view that fund raising by way of Rights Issue 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 INDEPENDENT FINANCIAL ADVISER

3. Principal terms of the Rights Issue

Set out below are the principal terms of the Rights Issue. Further details of the terms of the Rights Issue are set out in the Letter from the Board.

Issue statistics

Basis of the Rights Issue	:	Six (6) Rights Shares for every Consolidated Share held on the Record Date
Number of existing Shares in issue as at the Latest Practicable Date	:	4,126,270,695 Shares
Number of Consolidated Shares in issue assuming the Share Consolidation has become effective	:	412,627,069 Consolidated Shares (assuming no further issue of new Shares or repurchase of Shares up to the effective date of the Share Consolidation)
Number of Rights Shares	:	<ul style="list-style-type: none">– Not less than 2,475,762,414 Rights Shares, representing 600% of the Company's issued number of shares as at the Latest Practicable Date (assuming the Share Consolidation has become effective) and 85.71% of the enlarged issued share capital of the Company upon completion of the Rights Issue; and– not more than 3,959,666,814 Rights Shares, representing approximately 959.62% of the Company's issued number of shares as at the date of the Latest Practicable Date (assuming the Share Consolidation has become effective) and 85.71% of the enlarged issued share capital of the Company upon completion of the Rights Issue (assuming Shares or Consolidated Shares issued pursuant to the exercise of the subscription rights attached to the Unlisted Warrants in full, and exercise of the Excluded Share Options and the conversion rights attached to Excluded CB in full on or before the Record Date and no other issue of Shares or Consolidated Shares)

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Aggregate nominal value of : Not less than approximately HK\$247,576,241.40 and
the Rights Shares to be not more than approximately HK\$395,966,681.40
issued

Subscription Price : HK\$0.188 per Rights Share with nominal value of HK\$0.10
each

As illustrated in the Letter from the Board under the sub-section “New shares issuable”, 499,202,723 new Shares are issuable upon exercise of Unlisted Warrants, the Convertible Bonds and Share Options in full assuming the Share Consolidation has become effective. Further details of the new Shares issuable are set out in the Letter from the Board. Save for the above, 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.

4. The Subscription Price

The Subscription Price of HK\$0.188 per Rights Share represents:

- (i) a discount of approximately 39.35% to the theoretical closing price of HK\$0.310 per Consolidated Share, based on the closing price of HK\$0.031 as quoted on the Stock Exchange as at the Latest Practicable Date and adjusted taking into account the effect of the Share Consolidation;
- (ii) a discount of approximately 70.16% to the theoretical closing price of HK\$0.630 per Consolidated Share, based on the closing price of HK\$0.063 per Share as quoted on the Stock Exchange on the Last Trading Day and adjusted taking into account the effect of the Share Consolidation;
- (iii) a discount of approximately 25.10% to the theoretical ex-rights price of approximately HK\$0.251 per Consolidated Share, based on the closing price of HK\$0.063 per Share as quoted on the Stock Exchange on the Last Trading Day and adjusted taking into account the effect of the Share Consolidation; and
- (iv) a discount of approximately 71.34% to the average theoretical closing price of approximately HK\$0.656 per Consolidated Share, based on the average closing price of HK\$0.0656 per Share as quoted on the Stock Exchange from 25 April 2014 to 2 May 2014, both dates inclusive, being the last five consecutive trading days up to and including the Last Trading Day and adjusted taking into account the effect of the Share Consolidation.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

The Subscription Price was determined after arm's length negotiations between the Company and the Underwriter with reference to the market price of the Shares under the prevailing market conditions. The Directors (excluding the independent non-executive Directors) consider that the discount of Subscription Price, which would encourage the Shareholders to participate in the Rights Issue and accordingly maintain their pro-rata shareholdings in the Company and participate in the future growth of the Group, is fair and reasonable and is in the best interests of the Company and the Shareholders as a whole. The net price per Rights Share upon full acceptance of the relevant provisional allotment of Rights Shares (assuming no further issue of new Shares or Consolidated Shares or repurchase of Shares or Consolidated Shares on or before the Record Date) will be approximately HK\$0.181.

In analysing the fairness and reasonableness of the Subscription Price, we have undertaken the following analysis:

(a) Share price performance of the Company and liquidity of the Shares

We have reviewed the highest, lowest and the average daily adjusted closing prices of the Shares (adjusted assuming Share Consolidation has become effective) over an approximately 12 month period prior to the date of the Underwriting Agreement and up to the Latest Practicable Date (the “**Review Period**”). We are of the view that the Review Period is a reasonable timeframe given that it covers a period encompassing one full calendar year prior to the date of the Underwriting Agreement and the subsequent period thereafter up to the Latest Practicable Date. Such period is also sufficient for us to carry out our analysis on the historical share price performance of the Company and the trading volume of Shares as we consider that such timeframe is long enough to avoid any short term fluctuation which may distort our analysis and that it also reflects the recent share price performance of the Company as well as its recent trading volume of Shares.

Month	Adjusted highest price HK\$	Adjusted lowest price HK\$	Adjusted average daily closing price HK\$
2013			
May	0.960	0.850	0.897
June	0.900	0.710	0.809
July (Note 1)	1.080	0.860	0.961
August	1.240	1.010	1.085
September	1.160	0.980	1.066
October	1.530	1.080	1.332
November (Note 2)	1.340	1.200	1.266
December	1.350	1.080	1.229

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Month	Adjusted highest price HK\$	Adjusted lowest price HK\$	Adjusted average daily closing price HK\$
2014			
January	1.200	0.980	1.118
February	1.160	0.900	1.075
March	1.100	0.780	0.900
April	0.870	0.590	0.766
May	0.630	0.250	0.297
June (up to and including the Latest Practicable Date)	0.380	0.300	0.315

Source: website of the Stock Exchange

Notes:

- 1) Trading in the Shares was suspended from 2 July 2013 to 9 July 2013.
- 2) Trading in the Shares was suspended from 15 November 2013 to 28 November 2013.

The adjusted average daily closing price of Shares per month ranged from HK\$0.297 to HK\$1.332 per Share in each month during the Review Period with the lowest adjusted price of HK\$0.250 per Share recorded in 7 May 2014 and the highest adjusted price of HK\$1.530 per Share recorded in 22 October 2013. Therefore, the Subscription Price is lower than the range of the adjusted prices of the Shares during the entire Review Period. We also noted that the highest adjusted price of HK\$1.530 per Share has a premium of approximately 512% over the lowest adjusted price of HK\$0.250 per Share. Such difference indicates that the market prices of Share were rather volatile during the Review Period.

Furthermore, we noted that the share prices of the Company has been trending downward in the year 2014 since reaching the highest adjusted price of HK\$1.200 per Share in 3 January 2014 and 7 January 2014. As noted from the table above, in 2014, the adjusted average daily closing price of Shares was the highest in January 2014 with an adjusted average daily closing price of Shares of HK\$1.118 per Share and has been decreasing subsequently and reached the lowest adjusted average daily closing price of HK\$0.297 per Share in May 2014.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

The following table sets out the trading volume of Shares during the Review Period:

Month	Total monthly trading volume (in number of shares)	Approximate average daily trading volume (the “Average Volume”) (in number of shares)	Average Volume to total number of issued Shares held by the public as at the Latest Practicable Date (Approximate%) (Note 3)	Average Volume to total number of issued Shares as at the Latest Practicable Date (Approximate%) (Note 4)
2013				
May	27,240,500	1,433,711	0.06	0.03
June	123,194,504	6,483,921	0.28	0.16
July (Note 1)	272,285,000	17,017,813	0.74	0.41
August	276,786,000	13,180,286	0.57	0.32
September	155,480,227	7,774,011	0.34	0.19
October	430,074,000	20,479,714	0.89	0.50
November (Note 2)	190,916,000	17,356,000	0.75	0.42
December	140,026,000	7,001,300	0.30	0.17
2014				
January	64,726,000	3,082,190	0.13	0.07
February	65,441,500	3,444,289	0.15	0.08
March	293,977,805	13,998,943	0.61	0.34
April	151,165,000	7,558,250	0.33	0.18
May	1,010,842,950	50,542,148	2.19	1.22
June (up to and including the Latest Practicable Date)	476,874,800	47,687,480	2.06	1.16

Source: website of the Stock Exchange

Notes:

- Trading in the Shares was suspended from 2 July 2013 to 9 July 2013.
- Trading in the Shares was suspended from 15 November 2013 to 28 November 2013.
- Based on 2,311,452,695 Shares held by the public Shareholders as at the Latest Practicable Date.
- Based on 4,126,270,695 Shares in issue as at the Latest Practicable Date.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

During the Review Period, the Average Volume to total number of issued Shares as at the Latest Practicable Date was in the range of approximately 0.03% to 1.22% and the Average Volume to total number of issued Shares held by the public as at the Latest Practicable Date was in the range of approximately 0.06% to 2.19%. Given that the Average Volume during the Review Period was below 2.5% of the public float as at the Latest Practicable Date, in our view, the liquidity of Shares during the Review Period was low. We are of the view that trading volume of shares that is less than 2.5% of the public float is low in general as it indicates that substantially all the shares that are held by public shareholders are not being traded frequently and it is also a common market recognition that such trading volume is considered low.

Having considered (i) the high volatility of the market prices of Share during the Review Period; (ii) the recent downward trend of the share prices of the Company at the later part of the Review Period; and (iii) the low liquidity of Shares during the Review Period, it would be difficult to attract Qualifying Shareholders to take up their respective allotments in the Rights Issue if the Subscription Price is not set at a good discount to the historical market prices of Shares. In addition, it is also a normal market practice that the subscription of a rights issue represents a discount to the prevailing market prices of the relevant shares. In light of the above, we are of the view that a discount to the market price of Shares as represented by the Subscription Price is justifiable.

(b) Comparison with other rights issues

To further evaluate the fairness and reasonableness of the Rights Issue, we also consider a broad comparison of rights issues conducted by other companies listed on the Main Board and the Growth Enterprise Market of the Stock Exchange. We have identified 23 rights issue transaction comparables (i) announced by other companies that are listed on the Main Board and the Growth Enterprise Market of the Stock Exchange from 2 May 2013 to 2 May 2014, being the date of the Underwriting Agreement, representing a 12-months period prior to the date of the Underwriting Agreement; (ii) that had not been suspended for trading for more than 12 months from the dates of the respective announcements in relation to the rights issue transactions; and (iii) did not offer bonus shares in the rights issue transactions, for reference (refer to collectively as the “**Comparables**”). As there were 23 Comparables during such period as stated above, such sample size is reasonable in our view. Furthermore, having considered the recent volatility of the Hong Kong stock market and that the Comparables (i) adequately covered the prevailing market conditions and sentiments in the Hong Kong stock market; (ii) such period represented the recent structure of the rights issues in Hong Kong; and (iii) allowed the Shareholders to have general understanding of the recent rights issue transactions being conducted in the Hong Kong stock market, we considered that the size of the Comparables is adequate. We are also of the opinion that the Comparables are fair, sufficient and representative samples to illustrate the recent trend and terms of the rights issue transactions under common market practice, even though the Shareholders should note that the businesses, operations and prospects of the Company are not the same as the Comparables and we have not conducted any in-depth investigation into their respective businesses and operations. The Comparables are hence only used to provide a general reference for the common market practice in rights issue transactions of companies listed on the Main Board and the Growth Enterprise Market of the Stock Exchange.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Company (stock code)	Date of announcement	Basis of entitlement	Premium/ (Discount) of effective subscription price over/to the closing price on the last trading date prior to the release of the rights issue announcement (%) (Note 1)	Premium/ (Discount) of effective subscription price over/to the theoretical ex-entitlement price on the last trading date prior to the release of the rights issue announcement (%) (Note 2)	Maximum dilution (Approximate%) (Note 2)	Underwriting commission (Approximate%)
Haitong International Securities Group Limited (665)	22-Apr-14	1 for 2	(11.21)	(7.77)	33.33	Nil (Note 3)
Merdeka Mobile Group Limited (8163)	11-Apr-14	4 for 1	(75.16)	(37.69)	80.00	3.50
Fosun International Limited (656)	9-Apr-14	39 for 500	0.00	0.00	7.24	0.00 (Note 4)
Dah Sing Banking Group Limited (2356)	26-Mar-14	12 for 100	(33.33)	(30.86)	10.71	2.25
Dah Sing Financial Holdings Limited (440)	26-Mar-14	13 for 100	(33.99)	(31.31)	11.50	2.25
Computech Holdings Limited (8081)	21-Mar-14	1 for 2	(23.35)	(16.88)	33.33	3.50
New World Development Company Limited (17)	13-Mar-14	1 for 3	(36.34)	(29.98)	25.00	2.50
Sincere Watch (Hong Kong) Limited (444)	4-Mar-14	1 for 2	(67.91)	(58.53)	33.33	2.50
Oriental Unicorn Agricultural Group Limited (8120)	3-Mar-14	13 for 2	(57.33)	(15.19)	86.67	3.50
See Corporation Limited (491)	3-Jan-14	9 for 1	(76.49)	(24.55)	90.00	3.00
Landing International Development Limited (582)	20-Dec-13	1 for 2	(16.67)	(11.76)	33.33	1.18

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Company (stock code)	Date of announcement	Basis of entitlement	Premium/ (Discount) of effective subscription price over/to the closing price on the last trading date prior to the release of the rights issue announcement (%) (Note 1)	Premium/ (Discount) of effective subscription price over/to the theoretical ex-entitlement price on the last trading date prior to the release of the rights issue announcement (%) (Note 2)	Maximum dilution (Approximate%) (Note 2)	Underwriting commission (Approximate%)
Wanda Commercial Properties (Group) Co., Limited (169)	13-Dec-13	3 for 10	(17.71)	(14.21)	23.08	2.30
Lai Sun Garment (International) Limited (191)	13-Dec-13	4 for 25	(40.00)	(36.50)	13.79	2.50
Kader Holdings Company Limited (180)	12-Dec-13	3 for 7	(22.45)	(16.85)	30.00	2.50
Hon Kwok Land Investment Company, Limited (160)	3-Dec-13	1 for 2	(10.60)	(7.32)	33.33	2.00
abc Multiactive Limited (8131)	29-Nov-13	1 for 2	(71.83)	(62.96)	33.33	HK\$100,000
Landsea Green Properties Company Limited (106)	25-Nov-13	1 for 2	(2.60)	(1.70)	33.33	0.00 (Note 4)
Carry Wealth Holdings Limited (643)	20-Nov-13	1 for 2	(44.44)	(35.06)	33.33	1.00
Easyknit Enterprises Holdings Limited (616)	3-Oct-13	5 for 1	(76.56)	(35.48)	83.33	1.00
National Investments Fund Limited (1227)	8-Jul-13	1 for 2	(42.37)	(32.81)	33.33	3.00
Vision Values Holdings Limited (862)	13-Jun-13	1 for 2	(36.31)	(27.54)	33.33	2.50
Merdeka Mobile Group Limited (8163)	11-Jun-13	2 for 5	11.11 (Note 5)	7.82 (Note 5)	28.57	3.50

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Company (stock code)	Date of announcement	Basis of entitlement	Premium/ (Discount) of effective subscription price over/to the closing price on the last trading date prior to the release of the rights issue announcement (%) (Note 1)	Premium/ (Discount) of effective subscription price over/to the theoretical ex-entitlement price on the last trading date prior to the release of the rights issue announcement (%) (Note 2)	Maximum dilution (Approximate%) (Note 2)	Underwriting commission (Approximate%)
SMI Culture Group Holdings Limited (2366)	16-May-13	5 for 1	(76.00)	(34.55)	83.33	2.50
Average (Note 6)			(39.67)	(25.89)	39.42	2.47
Maximum			(76.56)	(62.96)	90.00	3.50
Minimum (Note 6)			0.00	0.00	7.24	1.00
The Rights Issue	2-May-14	6 for 1	(70.16)	(25.10)	85.71	2.50

Source: website of the Stock Exchange

Notes:

- 1) As we noted that the discounts to the subscription price of the Comparables are well-dispersed throughout the range of discounts, we are of the view that none of the Comparables is considered as an extreme outlier which would require us to exclude in our calculation of the average discounts.
- 2) We noted that at the high end range of the maximum dilution of the Comparables, there is a group of Comparables namely, Merdeka Mobile Group Limited (stock code: 8163), Oriental Unicorn Agricultural Group Limited (stock code: 8120), See Corporation Limited (stock code: 491), Easyknit Enterprises Holdings Limited (stock code: 616) and SMI Culture Group Holdings Limited (stock code: 2366), with higher maximum dilution. As these Comparables are in a near group, we are of the view that these Comparables are not extreme outliers which would require us to exclude in our calculation of the average maximum dilution.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

- 3) No underwriting commission was disclosed in its announcement.
- 4) The underwriter(s) is/are connected person(s) with the Comparable and hence no underwriting commission was charged.
- 5) As this rights issue is the only Comparable with subscription price being a premium over the closing price or ex-entitlement price on the last trading date prior to the release of its rights issue announcement, therefore we have excluded it from the range of premium/discount of subscription price over/to the closing price or ex-entitlement price of the Comparables.
- 6) As abc Multiactive Limited (stock code: 8131) had a fixed underwriting commission and there were three rights issue transactions above with no underwriting commission, therefore these were excluded in the calculation of the average and maximum/minimum underwriting commission of the Comparables.

As shown by the above table, the subscription prices of the Comparables ranged from a discount of approximately 76.56% to 0.00% to the respective closing prices of their shares on the last trading days prior to the release of the rights issue announcements (the “**LTD Market Range**”) with an average discount of approximately 39.67%. The Subscription Price, which represents a discount of approximately 70.16% to the closing price of the Shares on the Last Trading Day and adjusted taking into account the effect of the Share Consolidation, whilst falls within the LTD Market Range, is deeper than the average discount of the LTD Market Range.

Furthermore, the subscription prices of the Comparables ranged from a discount of approximately 62.96% to 0.00% to the respective theoretical ex-rights prices of their shares on their respective last trading days prior to the release of the rights issue announcements (the “**TERP Market Range**”) with an average discount of 25.89%. The Subscription Price, which represents a discount of approximately 25.10% to the closing price of the Shares on the Last Trading Day and adjusted taking into account the effect of the Share Consolidation, falls within the TERP Market Range and has discount slightly higher than the average discount of the TERP Market Range.

Having considered (i) the Subscription Price was determined at after arm’s length negotiations between the Company and the Underwriter; (ii) the current loss making position of the Group; (iii) the factors discussed in the sub-section headed “Share price performance and liquidity of the Shares” above; (iv) the discount would attract the Shareholders to participate in the Rights Issue and accordingly maintain their shareholding interests in the Company and participate in the future growth of the Group; and (v) the discounts represented by the Subscription Price to the Last Trading Day and adjusted taking into account the effect of the Share Consolidation fall within the LTD Market Range and the TERP Market Range, we concur with the Directors that the Subscription Price 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. Accordingly, we consider that the discount of the Subscription Price to the prevailing market share price of the Company is acceptable.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

5. The Underwriting Agreement

On 2 May 2014, the Company and the Underwriter, Emperor Securities Limited, has entered into the Underwriting Agreement where the Underwriter has conditionally agreed to underwrite the Rights Shares not subscribed by the Qualifying Shareholders on a fully underwritten basis, being not less than 1,869,912,414 Rights Shares and not more than 3,353,816,814 Rights Shares (excluding the number of the Rights Shares agreed to be taken up by Mr. Sin and Miss Law pursuant to the Irrevocable Undertaking), subject to the terms and conditions of the Underwriting Agreement. The Underwriter shall charge an underwriting commission of 2.50% on the aggregate Subscription Price of the Underwritten Shares as determined on the Record Date. Further details of the terms of the Underwriting Agreement are set out in the Letter from the Board. The Underwriter has acted as the placing agent of the Company previously and has completed a number of fund raising transactions for the Company including the rights issue on the basis of four rights shares for every one existing share in December 2012 and the placing of bonds with warrants and convertible bonds in May 2013. As discussed with the Company and concurred by us, the Company has compared the terms of the proposed Rights Issue with rights issues conducted by other companies listed on the Growth Enterprise Market of the Stock Exchange which were announced since 1 January 2014 prior to entering in the Underwriting Agreement with the Underwriter. The Company is of the view that (i) the proposed terms and conditions offered by the Underwriter is in-line with the comparables conducted by the Company; (ii) the proposed terms of the Rights Issue are negotiated on arm's length basis between the Company and the Underwriter; and (iii) the Company and the Underwriter have prior established and long working relationships, the Company considered that it is in the interest of the Company to engage the Underwriter to commence the Rights Issue as soon as possible to avoid any possible volatility in the financial market.

(a) Underwriting commission

As stated above, the Underwriter will charge an underwriting commission of 2.50% on the aggregate Subscription Price of the Underwritten Shares as determined on the Record Date. The Board considers that the terms of the Underwriting Agreement including the commission rate accord with the market practice and are fair and reasonable so far as the Company and the Shareholders are concerned. Meanwhile, we have reviewed the underwriting commission of the Comparables and noted that the underwriting commission of the Comparables ranges from 1.00% to 3.50% with an average of 2.47%. Therefore, the underwriting commission charged by the Underwriter is around the average underwriting commission of the Comparables. Accordingly, we concur with the Directors and are of the view that the underwriting commission charged by the Underwriter 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 INDEPENDENT FINANCIAL ADVISER

(b) Termination of the Underwriting Agreement

Subject to the fulfillment of the conditions of the Underwriting Agreement, the Rights Issue will not proceed if the Underwriter exercises their termination rights under the Underwriting Agreement, details of the provisions are set out in the section headed “Termination of the Underwriting Agreement” in the Letter from the Board. As it is common to have termination clause in the underwriting agreements, we consider such provisions are normal commercial terms and in line with market practice.

Save as aforesaid, we have also reviewed other major terms of the Underwriting Agreement and we are not aware of any terms which are unusual. Consequently, we concur with the Directors and are of the view that the terms of the Underwriting Agreement 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.

6. Application for excess Rights Shares

Qualifying Shareholders shall be entitled to apply for any unsold entitlements of the Non-Qualifying Shareholders and any Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders. Application may be made only by the Qualifying Shareholders and only by completing an EAF and lodging the same with a separate remittance for the excess Rights Shares being applied for. The Directors will allocate the excess Rights Shares at their discretion on a pro-rata basis in proportion to the number of excess Rights Shares being applied for under each application. In the event that the Directors consider that certain applications may have been made with the intention to abuse the above mechanism, the Directors may change the allocation method for the excess Rights Shares to one which is on a fair and equitable basis. However, no preference will be given to topping-up odd lots to whole board lots. Shareholders who have been offered odd lots of the Rights Shares should note that there is no guarantee that such odd lots of the Rights Shares will be topped up to create whole board lots pursuant to applications for excess Rights Shares. Further details on the application for excess Rights Shares is also set out in the Letter from the Board.

7. Financial effects of the Rights Issue on the Group

(a) Cash flow

Following completion of the Rights Issue, the minimum net proceeds are estimated to be approximately HK\$448.4 million. As such, immediately upon completion of the Rights Issue, the cash level of the Group will be increased and hence it is expected to have a positive effect on the working capital of the Group. The net proceeds from the Rights Issue will subsequently be applied mainly for the repayment of liabilities of the Group, including but not limited to the outstanding Convertible Bonds, which the Company has the right of early repayment before the repayment due date.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

(b) *Net asset value*

As stated above in this letter, the Group had net asset value of approximately HK\$709.4 million as at 31 December 2013. Immediately upon completion of the Subscription and with reference to the net asset value as at 31 December 2013, the net asset value of the Group is expected to increase by the estimated net proceeds from the Rights Issue.

(c) *Gearing ratio*

As stated above in this letter, the Group's gearing ratio was approximately 0.55 as at 31 December 2013. Immediately upon completion of the Subscription, there will be an increase in the cash level of the Group and the Company intends to apply the net proceeds of the Rights Issue mainly to repay liabilities of the Group. As such, the gearing ratio of the Group will decrease and improve.

8. Effect of the Rights Issue on the shareholding of the Company

All Qualifying Shareholders are entitled to subscribe for the Rights Shares. For those Qualifying Shareholders who take up their entitlements in full under the Rights Issue, their shareholding interests in the Company will remain unchanged after the completion of the Rights Issue.

Qualifying Shareholders who do not accept the Rights Issue can, subject to the then prevailing market conditions, consider selling their nil-paid rights to subscribe for the Rights Shares in the market. In such case, assuming in the scenario where no further issue of new Shares or Consolidated Shares or repurchase of Shares or Consolidated Shares on or before the Record Date, where all Qualifying Shareholders (except for Mr. Sin and Miss Law taking up in aggregate 605,850,000 Rights Shares pursuant to the Irrevocable Undertaking) do not accept the Rights Issue and thus the Underwriter are obligated to take up the unsubscribed Right Shares, the proportional shareholding interests of the existing public Shareholders in the Company will be diluted from approximately 56.02% to approximately 8.00%. Details of such dilution effect are presented in the Letter from the Board.

Meanwhile, Qualifying Shareholders who wish to increase their shareholding interests in the Company through the Rights Issue may (i) subject to availability, acquire additional nil-paid Rights Shares in the market; and (ii) apply for excess Rights Shares.

We are aware of the aforementioned potential dilution to the shareholding interests of the existing public Shareholders in the Company. Nonetheless, we consider that the foregoing should be balanced against by the following factors:

- the Independent Shareholders are offered a chance to express their view on the terms of the Rights Issue through their votes at the SGM;
- the Qualifying Shareholders have their choice whether to accept the Rights Issue or not;

LETTER FROM INDEPENDENT FINANCIAL ADVISER

- the Qualifying Shareholders have the opportunity to realize their nil-paid Rights Shares to subscribe for the Rights Shares in the market (subject to availability); and
- the Rights Issue offers the Qualifying Shareholders a chance to subscribe for their pro-rata Rights Shares for the purpose of maintaining their respective existing shareholding interests in the Company at a relatively low price as compared to the historical and prevailing market prices of Shares.

In addition, we noted from the Comparables as detailed in the table under the previous section of this letter that the maximum dilution to the existing shareholders as a result of the rights issue transactions ranged from 7.24% to 90.00%. As such, the maximum dilution of 85.71% to the existing public Shareholders as a result of the Rights Issue falls within the said market range. However, it should be noted that the maximum dilution of 85.71% is on the high-end of the maximum dilution of the Comparables. Whilst the maximum dilution is on the high-end of Comparables, in considering the dilution effect on the shareholding interest of the existing public Shareholders, we have also taken into account that: (i) the current loss making position of the Group and that the Rights Issue will enable the Group to repay outstanding borrowing to lower the interest costs and gearing ratio, which are beneficial to the long term growth of the Group; (ii) the Rights Issue is on the basis that all Qualifying Shareholders have been offered the same opportunity to maintain their proportional interests in the Company and allows the Qualifying Shareholders to participate in the future development of the Company; (iii) the inherent dilutive nature of Rights Issue in general if the existing Shareholders do not take up their entitlements under the Rights Issue; and (iv) the discount of the Subscription Price (including the subscription ratio) was necessary to encourage the Qualifying Shareholders to participate in the Rights Issue. We have also reviewed the Comparables which had maximum dilution similar to the Rights Issue, namely, the rights issue of Merdeka Mobile Group Limited (stock code: 8163), Oriental Unicorn Agricultural Group Limited (stock code: 8120), See Corporation Limited (stock code: 491), Easyknit Enterprises Holdings Limited (stock code: 616) and SMI Culture Group Holdings Limited (stock code: 2366). We noted that all these Comparables, except for Easyknit Enterprises Holdings Limited, showed similarities to the Company as they were loss making prior to their respective rights issues and the rights issues were conducted in order to strengthen the financial position of the group. In light of the above, we consider the possible dilution effect on the shareholding interests of the existing public Shareholders, which may only happen when the Qualifying Shareholders do not subscribe for their pro-rata Rights Shares, to be acceptable.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

RECOMMENDATIONS

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

- (i) the Rights Issue will allow the Group to repay outstanding borrowing to lower the interest costs and gearing ratio, which are beneficial to the long term growth of the Group;
- (ii) all Qualifying Shareholders are offered an equal opportunity to participate in the Rights Issue to take up their provisional allotments in full to maintain their respective shareholdings in the Company;
- (iii) the Subscription Price has been determined based on arm's length negotiations between the Company and the Underwriter;
- (iv) the recent downward trend of the share prices of the Company and the low liquidity of Shares during the Review Period;
- (v) the discounts as represented by the Subscription Price fall within the LTD Market Range and the TERP Market Range which are in line with recent market trends; and
- (vi) the Rights Issue will have an immediate positive impact on the cash flow, net asset value and gearing ratio of the Group,

we consider that the Rights Issue is fair and reasonable and on normal commercial terms so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to approve the Rights Issue at the SGM.

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

1. 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.

2. INDEBTEDNESS

At the close of business on 30 April 2014, being the latest practicable date for the purpose of ascertaining the indebtedness of the 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\$8,000,000, borrowings of approximately HK\$199,485,000, unsecured bonds – principal amount of approximately HK\$78,775,000 (excluded interest payables of approximately HK\$10,504,000), unsecured convertible bonds – principal amount of approximately HK\$459,010,000 (excluded interest payables of approximately HK\$41,864,000) and finance lease obligation of approximately HK\$18,536,000.

Securities

At 30 April 2014, loans from a related company are secured by a corporate guarantee granted by the Company.

At 30 April 2014, borrowings amounted to approximately HK\$18,385,000 were secured by leasehold buildings with book amount of approximately HK\$15,488,000 and a corporate guarantee granted by the Company. The remaining balance of approximately HK\$181,100,000 were unsecured.

At 30 April 2014, finance lease obligation was secured by investment properties of approximately HK\$724,839,000.

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 RMB600 million for the projects or the Group is liable to pay RMB8 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 30 April 2014, the Group had no material contingent liabilities.

As at 30 April 2014, certain bank loan facilities were secured by leasehold buildings with book amount of approximately HK\$15,488,000 and a corporate guarantee granted by the Company. Such bank loan facilities amounted to approximately HK\$18,500,000 were utilised to the extent of approximately HK\$18,385,000.

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 30 April 2014.

3. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the present available financial resources, the existing banking facilities available and the estimated net proceeds from the Rights Issue, the Group will have sufficient working capital for its present requirements and for at least 12 months from the date of this circular in the absence of unforeseen circumstances.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2013, being the date to which the latest published audited consolidated financial statements of the Group were made up.

5. BUSINESS AND FINANCIAL REVIEW FOR THE THREE MONTHS ENDED 31 MARCH 2014

FINANCIAL REVIEW

During the period under review, the Group reported a turnover of approximately HK\$1.8 million, an increase of 6% as compared to the turnover in previous period. The turnover was mainly attributable to the film and artiste management business, while part of the revenue was generated from the business of film studio in the PRC.

Other operating income for the period under review decreased approximately HK\$1.7 million as there have no interest income of Wong Tai Sin Temple in Xiqiao Mountain.

Staff costs for the period under review increased to approximately HK\$4.2 million from approximately HK\$3.4 million in previous period. An increase of approximately HK\$0.8 million in staff costs was mainly due to more staff costs raised from PRC for operates a film shooting base and hotel business.

Finance costs for the period under review increased approximately HK\$20 million due to an interest on convertible bonds and bond was incurred during the period under review.

For the three months ended 31 March 2014, the Group recorded a net loss of HK\$30.5 million as compared to net loss of the comparable period of approximately HK\$6.4 million. The record of loss for the three months ended was mainly due to the increase of finance costs and other operating expenses.

BUSINESS REVIEW

Xiqiao National Arts Film Studio Project

Located in Foshan city, Guangdong province, the Group's Xiqiao National Arts Film Studio project 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.

It is expected that Xiqiao National Arts Film Studio will open most of its areas to tourists to play visits for tickets to shooting scenic spots in the studio in the middle of 2014, as well as to film production process. The Group expects the studio will become one of the tourist spots in Guangdong province which could attract tourists and provide them with unique experience.

Film Shooting Base

The film shooting base is the core project of the Xiqiao National Arts Film Studio and equips with the most excellent and comprehensive ancillary facilities featuring most realistic and delicate details in South China. The film shooting base covers 374,000 square metres, including a lake of 120,000 square metres.

Currently, the major part of the shooting scenic spots has completed and is partly opened to production crews for lease which includes the Hong Kong Scene Area, the Shanghai Scene Area, the Guangzhou Scene Area, the Ancient Residence Area and the Ming-Qing Dynasty Palace. As to the Beijing Old Street, the Water Towns in Southern Yangtze River and the Qing-Ming Festival Riverside Scene, the construction is still undergoing and expected to be completed by the end of this year. The film shooting base can provide diversified and practical scenes for crews from Mainland China and Hong Kong, as well as overseas companies and is expected to attract a lot of film production companies in Mainland China and Hong Kong due to its supreme geographical location and good climate.

The construction of the film studio is expected to be completed in the middle of the year. With the official opening of the film studio, it is believed that it will become one of the important sources of income to the Group and bring substantial gain to the Group as enormous synergistic effect will be created and more tourists will be attracted.

Furthermore, the Company will keep in line with some potential film production entitles and television broadcast institutions to achieve further cooperation opportunities.

Hotels

There will be a 5-star hotel and a boutique hotel in the film studio. These hotels have rooms at different prices from deluxe suites to economic standard rooms to cater to tourists' needs. National Arts Resort Hotel will be completed and commence operation by June of this year. Featuring a modern European design style and incorporating Greek colour elements and providing 350 suites, it will be one of the most luxurious and distinctive hotels in the region. The construction of National Arts Boutique Hotel in close proximity has been commenced and it is expected that the hotel which may provide about 400 rooms will officially be put into operation in the fourth quarter of next year.

The service targets of the two hotels of the Company are the production crews who lease our shooting scenic spots and the tourists who visit the film studio. With the official opening of the film studio and the domestic demands in the tourism industry, the Group expects that the two hotels will achieve satisfactory occupation rate.

Film Production

The shooting of "Ip Man - The Final Fight", a film which the Group has conceived and produced for a long time, was shown in cinemas in Hong Kong and Mainland China in March of last year and distributed in overseas market. The film was highly rated and was chosen as an opening film of Hong Kong International Film Festival in 2013, and was also selected to compete at the fifteenth Udine Far East Film Festival.

As to the film production segment, the Group makes breakthroughs by adapting "男人唔可以窮 (Golden Brother*)", a popular network novel into movie, which is the Group's new attempt of not following its previous path of producing kungfu movies. The inspiring movie is expected to complete its filming and be shown in cinemas in August of this year. The Group is confident that the movie will once again be a successful one just like the previous kungfu movies. Besides, the Group will tap into the television series segment by producing a soap drama called "Sheng Nan Sheng Nv" which is about topics that are in vogue nowadays. The Group will explore more movies and television series with new topics to offer more choices to audience.

* *for identification purpose only*

Cinema

National Arts Films Production Limited (“NA Films”), a wholly-owned subsidiary of the Company, collaborated with its joint venture for the development of cinema business in a large shopping mall in a transportation hub area of Zhuhai. NA Films will hold 60% equity interest in the joint venture. The cinema will boast eight screens and a total of more than 730 seats, and is expected to commence operation in June of this year which will support more comprehensive development of the Group’s entertainment and culture business.

With the increase of the income per capita in Mainland China, the overall box office received by Chinese movies has achieved substantial growth over the past few years. It is expected that the cinema segment will provide the Group with stable income, and that the Group will continue to expand its cinema business in other first-tier and second-tier cities in the PRC.

Artiste Management

Subsequent to the completion and put into operation of the film studio, and with the huge market potential of domestic movies, the Group will recruit more artists with potential in the future to cope with the demands in the vast market. Apart from the films produced by the Group, the artists Marvel Chow, Dennis To and Rose Chan will also perform in different films and TV series. The Group will also identify suitable institutions for them to serve as spokespersons and participate in advertising photography. The Group will continue to recruit artists with potential and expand the artiste management segment, hoping that it will become one of the income sources of the Group.

Wedding Photography

The Group reached an agreement with a renowned domestic wedding photography chain group in the fourth quarter of last year to develop new wedding photography business. Through which, the Group will cooperate with the wedding photography company on film studio area of approximately 20 mu (13,333.33 square metres) for a term of 12 years and the wedding photography company will invest RMB10 million for the construction of scenic spots of different styles such as the European, Korean and Japanese styles and guarantee there will be at least 28,800 couples to take wedding photos in the scenic spots per year. The annual income of this arrangement will be no less than RMB1,152,000.

The wedding photography can provide stable cash flow and visitor flow to the Group, and facilitate the hotel rooms and catering businesses with the film studio area. Furthermore, the Group is discussing with wedding companies such as famous jeweler, bakery, Chinese wedding gown and wedding organization company the plan to set up their branch stores in the film studio so as to provide one-stop services to wedding couples in a comprehensive wedding base.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP PROSPECT

According to the statistics published by State Administration of Press, Publication, Radio, Film and Television, the box office receipts in Mainland China in 2013 reached RMB217.69 million, 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 RMB8,305 million 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.

For illustrative purpose only, set out below is the unaudited pro forma adjusted consolidated net tangible assets of the Group (the “Unaudited Pro Forma Financial Information”) as if Rights Issue has been completed on 31 December 2013. Although reasonable care has been exercised in preparing the Unaudited Pro Forma Financial Information, Shareholders who read the information below should bear in mind that these figures are inherently subject to adjustments and, because of its hypothetical nature, may not give a true picture of the Group’s financial position had the Rights Issue been completed as at 31 December 2013 or any future dates.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP ATTRIBUTABLE TO OWNERS OF THE COMPANY

Introduction

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company has been prepared by the directors of the Company in accordance with paragraph 31 of Chapter 7 of the GEM Listing Rules to illustrate the effect of the Rights Issue on the unaudited consolidated net tangible assets of the Group as if the Rights Issue had taken place on 31 December 2013.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company is prepared based on the audited net assets of the Group attributable to owners of the Company as at 31 December 2013, as extracted from the published annual report of the Company for the year ended 31 December 2013 and is adjusted for the effect of the Rights Issue.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not reflect the true picture of the consolidated net tangible assets of the Group attributable to owners of the Company immediately after completion of the Rights Issue.

APPENDIX II

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

Unaudited Pro Forma Statement of Adjusted Consolidated Net Tangible Assets of the Group

			Audited consolidated net tangible assets of the Group attributable to owners of the Company per Consolidated Share as at 31 December 2013 HK\$'000 Note 3			Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Consolidated Share as at 31 December 2013 HK\$'000 Note 7
	Audited consolidated net assets of the Group attributable to owners of the Company as at 31 December 2013 HK\$'000 Note 3	Adjustments for intangible assets HK\$'000 Note 4	Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2013 HK\$'000 Note 3	Audited consolidated net tangible assets of the Group attributable to owners of the Company per Consolidated Share as at 31 December 2013 HK\$'000 Note 5	Estimated net proceeds from the Rights Issue HK\$'000 Note 6	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2013 HK\$'000 Note 7

Scenario I

Issue of Rights Shares

based on

2,475,762,414 Rights

Shares at

subscription price of

HK\$0.188 per Right

Share (Note 1)	<u>709,418</u>	<u>(82,057)</u>	<u>627,361</u>	<u>1.52</u>	<u>448,349</u>	<u>1,075,710</u>	<u>0.37</u>
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Scenario II

Issue of Rights Shares

based on

3,959,666,814 Rights

Shares at

subscription price of

HK\$0.188 per Right

Share (Note 2)	<u>709,418</u>	<u>(82,057)</u>	<u>627,361</u>	<u>1.52</u>	<u>727,323</u>	<u>1,354,684</u>	<u>0.29</u>
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Notes:

1. The Rights Issue of 2,475,762,414 Rights Shares is calculated on the basis of six Rights Shares for every one Consolidated Share held on the record date, subject to the Share Consolidation (as defined in Note 9) becoming effective. It is based on 412,627,069 Consolidated Shares in issue immediately before the Proposed Rights Issue (assume no exercise or conversion of the Post-IPO Share Options, New Share Options, The First Series CB, The Second Series CB, Unlisted Warrants on or prior to the Record Date).
2. The Rights Issue of 3,959,666,814 Rights Shares is calculated on the basis of six Rights Shares for every one Consolidated Share held on the record date, subject to the Share Consolidation (as defined in Note 9) becoming effective. It is based on 412,627,069 Consolidated Shares in issue immediately before the Proposed Rights Issue and assume 905,523 Consolidated Shares, 3,661,877 Consolidated Shares, 73,000,000 Consolidated Shares, 101,250,000 Consolidated Shares and 68,500,000 Consolidated Shares to be issued assuming Post-IPO Share Options, New Share Options, The First Series CB, The Second Series CB and Unlisted Warrants are exercised or converted respectively. The numbers of Consolidated Shares to be issued from these share options and convertible bonds amounted to 247,317,400 have already excluded those held by Mr. Sin and Miss Law, i.e. 11,520,000 Consolidated Shares, 6,740,323 Consolidated Shares and 233,625,000 Consolidated Shares from Post-IPO Share Options, New Share Options and The Second Series CB respectively on or prior to the Record Date, as mentioned in Note 8.
3. The unaudited consolidated net assets of the Group attributable to the owners of the Company as at 31 December 2013 is extracted from the published annual report of the Group for the year ended 31 December 2013.
4. These represent the audited amounts of the Group's land lease prepayments of approximately HK\$82,507,000 which are attributable to the owners of the Company as at 31 December 2013. The land lease prepayments represent the premium recognised as intangible assets when acquiring the land interests which were held under favourable leasing terms with the local authority in the People's Republic of China. The amounts of total land lease prepayments are extracted from the published annual report of the Group for the year ended 31 December 2013.
5. The calculation of consolidated net tangible assets of the Group attributable to the owners of the Company per Consolidated Share is based on 412,627,069 Consolidated Shares in issue as at 31 December 2013 as if the Share Consolidation had become effective as at 31 December 2013.
6. The estimated net proceeds from the Rights Issue is calculated based on 2,475,762,414 Rights Shares for Scenario I or 3,959,666,814 Rights Shares for Scenario II to be issued at the subscription price of HK\$0.188 per Rights Share and after deduction of the estimated related expense including financial advisory fee and other professional fees, which are directly attributable to the Rights Issue of approximately HK\$17,094,000 for Scenarios I and II respectively.

7. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Consolidated Share immediately after completion of the Rights Issue is calculated based on (i) 2,888,389,483 Consolidated Shares for Scenario I which comprise 412,627,069 Consolidated Shares in issue as at 31 December 2013 and 2,475,762,414 Rights Shares expected to be issued on the completion of the Rights Issue; or (ii) 4,619,611,283 Consolidated Shares for Scenario II which comprise 412,627,069 Shares in issue as at 31 December 2013, 3,959,666,814 Rights Shares expected to be issued on the completion of the Rights Issue and the assumed exercise or conversion of Post-IPO Share Options, New Share Options, The First Series CB, The Second Series CB and Unlisted Warrants amounted to 247,317,400 Consolidated Shares in total as mentioned in Note 2.
8. As at the Latest practicable date, there are (i) the outstanding First Series CB in the aggregate principal amount of HK\$83,950,000 convertible into 730,000,000 Shares at HK\$0.115 per Share; (ii) the outstanding Second Series CB in the aggregate principal amount of HK\$375,060,000 convertible into 3,348,750,000 Shares at HK\$0.112 per Share, (iii) the outstanding Unlisted Warrants with rights to subscribe for 685,000,000 Shares at HK\$0.115 per Share; and (iv) the outstanding Share Options attaching subscription rights to subscribe for an aggregate of 228,277,233 Shares.

Mr. Sin, being one of the holders of the Second Series CB (in aggregate principal amount of HK\$261,660,000 convertible into 2,336,250,000 Shares) and holder of Share Options (attaching subscription rights to subscribe for an aggregate of 110,501,615 Shares), and Miss Law being one of the holders of the Share Options (attaching subscription rights to subscribe for an aggregate of 72,101,615 Shares) have unconditionally and irrevocably undertaken to the Company that they will not exercise any of their conversion rights or exercise rights under the Second Series CB and Share Options up to and including the record date of Rights Issue. Accordingly, the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Consolidated Share does not take into account the conversion effect of the outstanding Second Series CB and Share Options for both Scenarios I and II.

9. The Board proposes to put forward to the Shareholders a proposal for the Share Consolidation which involves the proposed consolidation of every ten issued and unissued Shares of par value of HK\$0.01 each into one Consolidated Share of par value of HK\$0.10 each. For details of the Share Consolidation, please refer to the sub-section headed “Proposed Share Consolidation” under the section headed “Letter from the Board” in this circular.
10. No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2013.

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

The following is the text of a report received from the reporting accountant of the Company, BDO Limited, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information of the Group for the purpose of incorporation in this circular.



Tel : +852 2218 8828
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話 : +852 2218 8828
傳真 : +852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

**INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE
COMPILATION OF PRO FORMA FINANCIAL INFORMATION INCLUDED IN AN
INVESTMENT CIRCULAR**

**TO THE DIRECTORS OF NATIONAL ARTS ENTERTAINMENT AND CULTURE GROUP
LIMITED**

We report on the unaudited pro forma statement of adjusted consolidated net tangible assets of National Arts Entertainment and Culture Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") attributable to the owners of the Company as set out on pages 67 to 70 under the heading of "Unaudited Pro Forma Statement of Adjusted Consolidated Net Tangible Assets of the Group" (the "Unaudited Pro Forma Financial Information") in Section A of Appendix II to the Company's circular dated 18 June 2014 (the "Circular"). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company (the "Directors") for illustrative purposes only, to provide information about how the proposed rights issue might have affected the net tangible assets of the Group if the proposed rights issue had taken place as at 31 December 2013. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in the section headed "Unaudited Pro Forma Statement of Adjusted Consolidated Net Tangible Assets of the Group Attributable to Owners of the Company" in Section A of Appendix II to the Circular.

Directors' Responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 31 of Chapter 7 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" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 31(7) of Chapter 7 of the GEM Listing Rules, on the 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 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 accountant comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information in accordance with paragraph 31 of Chapter 7 of the GEM Listing Rules and with reference to AG 7 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 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 Pro Forma Financial Information.

The purpose of Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the Rights Issue 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 would have been as presented.

A reasonable assurance engagement to report on whether the 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 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 to those criteria; and
- The Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

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

The engagement also involves evaluating the overall presentation of the 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 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 Pro Forma Financial Information as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Listing Rules.

Yours faithfully,

BDO Limited

Certified Public Accountants

Li Yin Fan

Practising Certificate Number P03113

Hong Kong, 18 June 2014

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the 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 (i) as at the Latest Practicable Date; (ii) immediately following the Share Consolidation becoming effective and completion of the Rights Issue (assuming Shares or Consolidated Shares issued pursuant to the exercise of the subscription rights attached to the Unlisted Warrants in full, and the exercise of the Share Options and the conversion rights attached to Convertible Bonds in full on or before the Record Date and no other issue of Shares or Consolidated Shares)

(i) As at the Latest Practicable Date

Authorised: HK\$

<u>60,000,000,000</u>	Shares of HK\$0.01 each	<u>600,000,000.00</u>
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Issued and fully paid:

<u>4,126,270,695</u>	Shares	<u>41,262,706.95</u>
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(ii) Immediately following the Share Consolidation becoming effective and completion of the Rights Issue (assuming no further issue of new Shares or Consolidated Shares or repurchase of Shares or Consolidated Shares on or before the Record Date)

Authorised: HK\$

	Consolidated Shares of HK\$0.10 each	
	immediately after the Share Consolidation	
<u>6,000,000,000</u>	becoming effective	<u>600,000,000.00</u>

Authorised: HK\$

Issued and fully paid:

412,627,069	Consolidated Shares in issue immediately after the Share Consolidation becoming effective but before completion of the Rights Issue	41,262,706.90
<u>2,475,762,414</u>	Rights Shares to be allotted and issued under the Rights Issue	<u>247,576,241.40</u>
<u><u>2,888,389,483</u></u>		<u><u>288,838,948.30</u></u>

- (iii) immediately following the Share Consolidation becoming effective and completion of the Rights Issue (assuming Shares or Consolidated Shares issued pursuant to the exercise of the subscription rights attached to the Unlisted Warrants in full, and the exercise of the Excluded Share Options and the conversion rights attached to Excluded CB in full on or before the Record Date and no other issue of Shares or Consolidated Shares)

Authorised: HK\$

<u><u>6,000,000,000</u></u>	Consolidated Shares of HK\$0.10 each immediately after the Share Consolidation becoming effective	<u><u>600,000,000.00</u></u>
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Issued and fully paid:

659,944,469	Consolidated Shares in issue immediately after the Share Consolidation becoming effective but before completion of the Rights Issue	65,994,446.90
<u>3,959,666,814</u>	Rights Shares to be allotted and issued under the Rights Issue	<u>395,966,681.40</u>
<u><u>4,619,611,283</u></u>		<u><u>461,961,128.30</u></u>

All of the Rights 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 Rights Shares. The Rights 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 Consolidated Shares or Rights 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, there were no arrangements under which future dividends are waived or agreed to be waived.

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 held by Mr. Sin (<i>Note 1</i>)	9 July 2013	3,348,750,000
Unlisted Warrants	16 April 2013	685,000,000
The First Series CB	16 April 2013	730,000,000
Outstanding options granted under New Share Option Scheme (<i>Note 1</i>)	–	104,022,000
Outstanding options granted under Post-IPO Share Option Scheme (<i>Note 1</i>)	–	124,255,233

Notes:

1. Mr. Sin, being one of the holders of the Second Series CB (in the aggregate principal amount of HK\$261,660,000) and Share Option Holders (attaching subscription rights to subscribe for an aggregate of 110,501,615 Shares), and Miss Law being one of the Share Option Holders (attaching subscription rights to subscribe for an aggregate of 72,101,615 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) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange 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\$0.01 each)					
Mr. Sin Kwok Lam (<i>Note</i>)	Beneficial owner	976,390,000	–	976,390,000	23.66%
	Interest of spouse	33,360,000	–	33,360,000	0.81%
Miss Law Po Yee (<i>Note</i>)	Beneficial owner	33,360,000	–	33,360,000	0.81%
	Interest of spouse	976,390,000	–	976,390,000	23.66%

Note 1: Mr. Sin and Miss Law together beneficially owned 1,009,750,000 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. Mr. Sin is deemed or taken to be 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*				Outstanding as at 31 December 2013
				As at 1 January 2013	Granted during the year	Exercised during the year	Lapsed during the year	
Mr. Sin Kwok Lam (Director)	29 September 2010	0.30	29 September 2010 to 2 September 2020	76,800,000	–	–	–	76,800,000
Miss Law Po Yee (Director)	29 September 2010	0.30	29 September 2010 to 2 September 2020	38,400,000	–	–	–	38,400,000
Mr. Lam Kwok Hing Wilfred (Director)	13 May 2010	0.38	13 May 2010 to 12 May 2020	2,407,894	–	–	–	2,407,894
	29 September 2010	0.30	29 September 2010 to 2 September 2020	5,200,000	–	–	–	5,200,000
Mr. Chow Kai Weng (Director)	29 September 2010	0.30	29 September 2010 to 2 September 2020	240,000	–	–	–	240,000
Mr. Li Sin Hung Maxim (Director)	20 May 2010	0.35	20 May 2010 to 19 May 2020	241,714	–	–	–	241,714
Mr. Chui Chi Yun, Robert (Director)	13 May 2010	0.38	13 May 2010 to 12 May 2020	321,053	–	–	–	321,053
Mr. Chan Tin Lup, Trevor (Director)	20 May 2010	0.35	20 May 2010 to 19 May 2020	322,286	–	–	–	322,286
Prof. Wong Lung Tak, Patrick (Director)	20 May 2010	0.35	20 May 2010 to 19 May 2020	322,286	–	–	–	322,286

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 2013	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2013
Mr. Sin Kwok Lam (Director)	28 March 2011	0.79	28 March 2012 to 27 March 2021	32,405,063	–	–	–	32,405,063
	31 March 2012	0.58	31 March 2012 to 30 March 2017	1,296,552	–	–	–	1,296,552
Miss Law Po Yee (Director)	28 March 2011	0.79	28 March 2012 to 27 March 2021	32,405,063	–	–	–	32,405,063
	31 March 2012	0.58	31 March 2012 to 30 March 2017	1,296,552	–	–	–	1,296,552
Mr. Lam Kwok Hing Wilfred (Director)	28 March 2011	0.79	28 March 2012 to 27 March 2021	18,146,834	–	–	–	18,146,834
	31 March 2012	0.58	31 March 2012 to 30 March 2017	648,276	–	–	–	648,276
Mr. Chow Kai Weng (Director)	28 March 2011	0.79	28 March 2012 to 27 March 2021	567,089	–	–	–	567,089
	31 March 2012	0.58	31 March 2012 to 30 March 2017	648,276	–	–	–	648,276
Miss Sin Ho Yee (Director)	28 March 2011	0.79	28 March 2012 to 27 March 2021	12,962,025	–	–	–	12,962,025
	31 March 2012	0.58	31 March 2012 to 30 March 2017	486,207	–	–	–	486,207
Mr. Li Sin Hung Maxim (Director)	28 March 2011	0.79	28 March 2012 to 27 March 2021	81,013	–	–	–	81,013
	31 March 2012	0.58	31 March 2012 to 30 March 2017	162,069	–	–	–	162,069
Mr. Chui Chi Yun, Robert (Director)	28 March 2011	0.79	28 March 2012 to 27 March 2021	324,051	–	–	–	324,051
	31 March 2012	0.58	31 March 2012 to 30 March 2017	648,276	–	–	–	648,276
Mr. Chan Tin Lup, Trevor (Director)	28 March 2011	0.79	28 March 2012 to 27 March 2021	324,051	–	–	–	324,051
	31 March 2012	0.58	31 March 2012 to 30 March 2017	648,276	–	–	–	648,276
Prof. Wong Lung Tak, Patrick (Director)	28 March 2011	0.79	28 March 2012 to 27 March 2021	324,051	–	–	–	324,051
	31 March 2012	0.58	31 March 2012 to 30 March 2017	648,276	–	–	–	648,276

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

Name of Directors	Capacity/ Nature of interest	Description of equity derivatives	Total	Approximate percentage of the issued share capital
Mr. Sin	beneficial owner	Second Series CB (<i>Note</i>)	2,336,250,000	56.62%
Miss Law	interest of spouse	Second Series CB (<i>Note</i>)	2,336,250,000	56.62%

Note: The Second Series CB with outstanding amount of HK\$261.66 million as at the Latest Practicable Date, were 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 Head Return Limited and Expand Pacific Limited. The Convertible Bonds bears 4% interest per annum; the principal amount of HK\$420 million and are convertible into shares of the Company at the initial conversion price of HK\$0.112 per share (subject to adjustment according to the terms of the convertible bonds). Miss Law is the spouse of Mr. Sin and is deemed to be interested in such underlying shares of the Company under 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 Shareholders	Long position/ Short Position	Capacity	Number of Shares held/ involved	Number of underlying Shares held/ involved	Approximately percentage of
Emperor Securities Limited (Note 1)	Long Position	Beneficial Owner	3,353,816,814	–	72.60% (Note 3)
Emperor Capital Group Limited (Note 1)	Long Position	Interested in controlled corporation	3,353,816,814	–	72.60% (Note 3)
Albert Yeung Holdings Limited (Note 1)	Long Position	Interested in controlled corporation	3,353,816,814	–	72.60% (Note 3)
STC International Limited (Note 1)	Long Position	Trustee	3,353,816,814	–	72.60% (Note 3)
Dr. Yeung Sau Shing (Note 1)	Long Position	Founder of discretionary trust	3,353,816,814	–	72.60% (Note 3)
Ms. Luk Siu Man Semon (Note 1)	Long Position	Interested of spouse	3,353,816,814	–	72.60% (Note 3)
Get Nice Securities Limited (Note 2)	Long Position	Beneficial Owner	530,000,000	–	11.47% (Note 3)

Name of Shareholders	Long position/ Short Position	Capacity	Number of Shares held/ involved	Number of underlying Shares held/ involved	Approximately percentage of
Get Nice Incorporated (Note 2)	Long Position	Interested in controlled corporation	530,000,000	–	11.47% (Note 3)
Get Nice Holdings Limited (Note 2)	Long Position	Interested in controlled corporation	530,000,000	–	11.47% (Note 3)
Tse Young Lai	Long Position	Beneficial Owner	805,068,000	–	19.51%

Notes:

1. Emperor Securities Limited is interested in these Rights Shares by virtue of the Underwriting Agreement, Emperor Securities Limited is an indirect wholly-owned subsidiary of Emperor Capital Group Limited, the shares of which are listed on the Stock Exchange. 68.28% of the shares of Emperor Capital Group Limited are held by Emperor Capital Group Holdings Limited. The entire issued share capital of Emperor Capital Group Holdings Limited is held by Albert Yeung Holdings Limited, which in turn is held by STC International Limited on trust for The Albert Yeung Discretionary Trust (the “AY Trust”). Dr. Yeung Sau Shing, Albert, as founder of the AY Trust, and Ms. Luk Siu Man, Semon, as the spouse of Dr. Yeung Sau Shing, Albert, are deemed to be interested in the 3,353,816,814 Rights Shares for the purpose of the SFO.
2. Get Nice Securities Limited is interested in 530,000,000 Rights Shares (which are included in the 3,353,816,814 Rights Shares underwritten by the Underwriter) pursuant to a sub-underwriting agreement in relation to the Rights Issue. Get Nice Securities Limited is wholly-owned by Get Nice Incorporated which in turn is wholly-owned by Get Nice Holdings Limited.
3. The percentage of shareholdings in the Company is calculated with reference to the number of Shares to be issued immediately after completion of the Rights Issue assuming no issue of new Shares on or before the Record Date.

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 Capital 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
BDO Limited	Certified Public Accountants

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 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 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 irrevocable undertakings dated 2 May 2014 given by each of Mr. Sin and Miss Law in favour of the Company and the Underwriter,;
- (b) the Underwriting Agreement (as supplemented by the supplemental agreement dated 16 June 2014).
- (c) 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 principal amount of HK\$420,000,000, in aggregate, convertible into 3,750,000,000 shares of HK\$0.112 each in the capital of the Company;
- (d) 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.

- (e) the underwriting agreement dated 18 October 2012 entered into between the Company and Emperor Securities Limited in relation to the underwriting arrangement in respect of a rights issue of the Company announced on 17 October 2012; and
- (f) the construction management agreement entered into between HRL and Foshan City Nanhai District Xiqiao Forest Park Goods and Materials Company (佛山市南海區西樵山森林公園物資公司) on 29 February 2012 in relation to the construction management of a temple located in the Xiqiao National Arts Film Studio.

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	BDO Limited 25/F, Wing On Centre, 111 Connaught Road 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 Capital 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

Name	Address
<i>Non-Executive Directors</i>	
Mr. Sin Kwok Lam	House J44, Marina Cove 380 Hiram's Highway, Hebe Haven, Sai Kung, New Territories, Hong Kong
Mr. Lam Kwok Hing Wilfred	10C, Kiu Hing Mansion, No. 14 Kings Road, North Point, Hong Kong
Mr. Li Sin Hung Maxim	Flat 14, 9/F., Block D, Ko Chun Court, Yau Tong, Kowloon, Hong Kong
<i>Independent Non-Executive Directors</i>	
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 A, 2/F., Block 4 Braemar Hill Mansion, 21 Braemar Hill Road, 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 and a Graduate Diploma in Law Course from City University, London, UK. Mr. Sin is the Chairman and Executive Director of First Credit Holdings Company Limited (stock code: 8215).

Mr. Lam Kwok Hing, Wilfred, JP, aged 55, was appointed as the Non-executive Vice Chairman of the Board on 5 August 2010. He was re-designated from an Independent Non-executive Director to a Non-executive Director in February 2010. Prior to the re-designation, Mr. Lam has joined the Group since May 2009 as an Independent Non-executive Director. Mr. Lam has been appointed Justice of the Peace of the Hong Kong Special Administrative Region since 1999 and awarded Queen's Badge of Honour in January 1997. Mr. Lam holds a Bachelor's degree in Law with honours from the University of Hong Kong. He is a practising solicitor in Hong Kong and is a consultant lawyer of WT Law Offices. He also holds the professional qualification of Estate Agent's (Individual) Licence in Hong Kong. Being an active member in social and charity activities, Mr. Lam is a Support Force Commander of the Civil Aid Service, Ex Officio Member of New Territories Heung Yee Kuk, Chairman of the Friends of the Community Chest (Kwai Tsing District), Honorary Advisor and Former Vice President of Junior Police Call (Kwai Tsing District), committee member of the Fight Crime Committee (Kwai Tsing District) and Director and Former Chairman of the Community Development Fund (Kwai Tsing District) in Hong Kong. He is also a member of the liaison association of the Chinese People's Political Consultative Conference, Guangdong Province. He is an executive director and chairman of Chinese Strategic Holdings Limited (stock code: 8089); executive director and group vice president of Hong Kong Resources Holdings Company Limited (stock code: 2882); a non-executive director of The Hong Kong Building and Loan Agency Limited (stock code: 145); an independent non-executive director of PME Group Limited (stock code: 379), the aforesaid companies are listed on the Main Board of the Exchange.

Mr. Li Sin Hung Maxim, aged 43, 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 54, 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 but his practice is mainly in civil litigation, criminal litigation, judicial review, immigration and company matters. 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 57, 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, 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. Patrick Wong Lung Tak, *BBS, JP*, aged 66, has been an Independent Non-executive Director of the Company since 3 February 2010. Prof. Wong is a Certified Public Accountant (Practising) in Hong Kong and the Managing Practising Director of Patrick Wong CPA Limited. He has over 30 years experience in the accountancy profession. Prof. Wong holds a Doctor degree of Philosophy in Business, was awarded a Badge of Honour by the Queen of England, and was appointed a Justice of the Peace and was awarded a Bronze Bauhinia Star (BBS) by the Government of the HKSAR. He has been appointed Adjunct Professor, School of Accounting and Finance of the Hong Kong Polytechnic University since 2002. Prof. Wong participates in many types of community services and is holding posts in various organisations and committees in government and voluntary agencies. Prof. Wong is an Independent Non-executive director of China Precious Metal Resources Holdings Co., Ltd., C C Land Holdings Limited, Water Oasis Group Limited, Sino Oil and Gas Holdings Limited, Galaxy Entertainment Group Limited, Guangzhou Pharmaceutical Company Limited, Real Nutriceutical Group Limited and Winox Holdings Limited, all of which are listed on the Main Board of the Exchange.

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).

Company Secretary

Mr. Chan Man Hung, aged 49, 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. EXPENSES

The expenses in connection with the Rights Issue, including underwriting commission, financial advisory fees, printing, registration, translation, legal and accounting fees, are estimated to be approximately HK\$17.09 million and are payable by the Company.

15. 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 36 to 37 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 38 to 60 of this circular;
- (e) the report on the unaudited pro forma financial information of the Group issued by BDO Limited set out in Appendix II to this circular;

- (f) the material contracts disclosed in the paragraph under the headed “Material Contracts” in this Appendix; and
- (g) the written consents referred to in the paragraph under the headed “Experts” in this Appendix

NOTICE OF SPECIAL GENERAL MEETING



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 on Friday, 4 July 2014 at 10 a.m. at Unit B, 2/F, Jone Mult Factory Building, 169 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong, Hong Kong for the purposes of considering and, if thought fit, passing with or without modifications, the following resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT** subject to and conditional upon, (i) the Listing Division of the Stock Exchange granting the listing of, and permission to deal in, the Consolidated Shares (as defined below); and (ii) compliance with the relevant procedures and requirements under the Listing Rules, every ten (10) issued and unissued shares of par value of HK\$0.01 each in the capital of the Company (each share, a “**Share**”) be consolidated into one (1) share of par value of HK \$0.10 (each share, a “**Consolidated Share**”), such that the authorised share capital of the Company will be HK\$600,000,000 divided into 6,000,000,000 Consolidated Shares of HK\$0.10 each. (the “**Share Consolidation**”), which will take effect on Monday, 7 July 2014 and such Consolidated Share(s) shall rank pari passu in all respects with each other and have the rights and privileges and be subject to the restrictions in respect of shares contained in the bye-laws of the Company and the Directors be and are hereby authorized to sign, execute, perfect, and/or deliver any document and to do all such acts, deeds and things and to effect all necessary actions as they may consider necessary or desirable in order to give effect to the foregoing arrangements for the Share Consolidation including the sale of any Fractional Consolidated Shares and retaining the sale proceeds thereof for the benefit of the Company.”
2. “**THAT** conditional upon resolution 1 as set out in this notice being approved and implemented and subject to the fulfillment or waiver (as applicable) of the conditions set out in the underwriting agreement dated 2 May 2014 (as supplemented on 16 June 2014) (the “**Underwriting Agreement**”) in respect of the Rights Issue (as defined below) and entered into between the Company and Emperor Securities Limited (the “**Underwriter**”) (a copy of the Underwriting Agreement has been produced to the Meeting marked “**A**” and signed by the chairman of the Meeting (the “**Chairman**”) for the purpose of identification):

NOTICE OF SPECIAL GENERAL MEETING

- (a) the issue by way of rights (the “**Rights Issue**”) of no less than 2,475,762,414 new Consolidated Shares and no more than 3,959,666,814 new Consolidated Shares (“**Right Shares**”) at a subscription price of HK\$0.188 per Rights Share to the shareholders of the Company (the “**Shareholders**”) whose names shall appear on the register of members of the Company on Monday, 14 July 2014, or such other date as the Company and the Underwriter may agree as the record date for determination of the entitlements of the Shareholders to the Rights Issue (the “**Record Date**”), on the basis of six Rights Shares for every Consolidated Share held by the Shareholders on the Record Date and substantially on the terms and conditions as set out in the circular of the Company dated 18 June 2014 (the “**Circular**”) (a copy of which marked “**B**” is produced to the Meeting and signed by the Chairman for the purpose of identification) and subject to such other terms and conditions as may be determined by the Directors, be and is hereby approved provided that (i) no Rights Shares shall be offered to the Shareholders whose addresses on the register of members of the Company are outside Hong Kong on the Record Date and whom the Directors consider it necessary or expedient to exclude such Shareholders from the Rights Issue on account either of the legal restrictions under the laws of the relevant place(s) or the requirements of the relevant regulatory body or stock exchange in that (those) place(s) (the “**Non-Qualifying Shareholders**”) and the Rights Shares which would otherwise have been offered to them shall be sold in their nil-paid form if a premium (net of expenses) could be obtained and to the extent that such rights can be sold, the net proceeds of such sale (after deducting the expenses of such sale) of more than HK\$100 be paid pro-rata to the Non-Qualifying Shareholders provided further that individual amounts of HK\$100 or less shall be retained for the benefit of the Company; and (ii) to the extent that the Rights Shares referred to (i) above are not sold as aforesaid, such Rights Shares together with any Rights Shares provisionally allotted but not accepted shall be offered for application under forms of application for excess Rights Shares; and
- (b) the Directors be and are hereby authorized to issue and allot the Rights Shares substantially on the terms as set out in the Prospectus Document and to do all such acts and things, to sign and execute all such further documents and to take such steps as the Directors in their absolute discretion consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Rights Issue and the transactions contemplated under the Underwriting Agreement.”

On behalf of the Board
**NATIONAL ARTS ENTERTAINMENT AND
CULTURE GROUP LIMITED**

Law Po Yee
Executive Director and Chief Executive Officer

Hong Kong, 18 June 2014

NOTICE OF SPECIAL GENERAL MEETING

Notes:

1. Any member of the Company entitled to attend and vote at the Meeting shall be entitled to appoint another person as his/her/its proxy to attend and vote instead of him/her/it. A member who is the holder of two or more Shares may appoint more than one proxy to represent him/her/it and vote on his/her/its behalf at the Meeting. A proxy need not be a member of the Company. On a poll, votes may be given either personally or by proxy.
2. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his/her/its attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of an officer, attorney or other person authorized to sign the same.
3. To be valid, the instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, shall be delivered to the Company's Hong Kong branch share registrar and transfer office, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof.
4. Where there are joint holders of any Shares, any one of such joint holders may vote at the Meeting, either in person or by proxy, in respect of such share as if he/she/it were solely entitled thereto, but if more than one of such joint holders be 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.
5. Completion and delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the Meeting if the member so wish and in such event, the instrument appointing a proxy should be deemed to be revoked.