



# **National Arts**

## **National Arts Holdings Limited**

(Formerly known as "Vertex Group Limited 慧峰集團有限公司")  
(Incorporated in the Cayman Islands with limited liability)  
(Stock Code : 8228)



## **Characteristics of the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Exchange”)**

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.

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*This report, for which the directors of National Arts Holdings Limited (the “Company”) collectively and individually accept full responsibility, include particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited 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:– (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## FINANCIAL RESULTS

The board of directors (“the Board”) of National Arts Holdings Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2010, together with the comparative figures for the corresponding period in 2009 as follows:

### Condensed Consolidated Statement of Comprehensive Income

	Note	Three months ended		Six months ended	
		2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
Turnover	2	112	3,138	1,319	4,052
Other operating income		–	12	–	13
Staff costs		(830)	(1,811)	(1,902)	(2,534)
Subcontracting and production costs		(78)	(2,837)	(1,190)	(3,666)
Depreciation of property, plant and equipment		(61)	(73)	(328)	(145)
Royalty costs		–	(18)	–	(48)
Other operating expenses		(837)	(836)	(2,750)	(2,986)
Finance cost		(91)	(829)	(360)	(1,549)
Gain on disposal of an associate	4	–	–	–	328
Loss before taxation	5	(1,785)	(3,254)	(5,211)	(6,535)
Taxation	6	–	–	–	(17)
Loss for the period		(1,785)	(3,254)	(5,211)	(6,552)
Other comprehensive income:					
Fair value gains on financial assets at fair value through profit or loss		–	–	19	–
Other comprehensive income for the period		–	–	19	–
Total comprehensive income for the period, attributable to the owners of the company		(1,785)	(3,254)	(5,192)	(6,552)
Attributable to:					
Equity holders of the Company		(1,785)	(3,254)	(5,192)	(6,552)
Minority interest		–	–	–	–
		(1,785)	(3,254)	(5,192)	(6,552)
Loss per share					
– Basic	7	HK\$(0.18) cents	HK\$(0.53) cents	HK\$(0.28) cents	HK\$(1.04) cents
– Diluted	7	N/A	HK\$(0.53) cents	N/A	HK\$(1.04) cents

## Condensed Consolidated Statement of Financial Position

		30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	4,134	236
Goodwill		8,974	8,974
		<b>13,108</b>	9,210
<b>Current assets</b>			
Film production in progress		–	14,691
Film rights		25,763	–
Trade receivables	10	9,571	9,581
Financial assets at fair value through profit or loss	11	1,947	–
Prepayments, deposits and other receivables		17,594	1,420
Pledged bank deposits		200	200
Cash and cash equivalents		71,973	6,277
		<b>127,048</b>	32,169
<b>Current liabilities</b>			
Trade payables	12	10,845	11,226
Other payables and accruals		4,619	3,440
Amounts due to related companies		16,162	16,256
Provision for income tax		8	8
		<b>31,634</b>	30,930
<b>Net current assets</b>		<b>95,414</b>	1,239
<b>Total assets less current liabilities</b>		<b>108,522</b>	10,449
<b>EQUITY</b>			
Share capital		47,585	11,896
Reserves		60,937	(1,447)
<b>Total equity</b>		<b>108,522</b>	10,449

## Condensed Consolidated Cash Flow Statement

	Six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash outflow from operating activities	(25,675)	(7,257)
Net cash (outflow)/inflow from investing activities	(39,143)	328
Net cash inflow from financing activities	135,275	7,008
Increase in cash and cash equivalents	70,457	79
Cash and cash equivalents at beginning of period	1,692	1,613
Effect of foreign exchange rate changes	24	–
Cash and cash equivalents at end of period	72,173	1,692

## Unaudited Statement of Movement to and from Reserve

	Share	Share	Special	Capital	Translation	Share		Total	Minority	Total
	Capital	Premium	Reserve	Reserve	Reserve	Option	Accumulated			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	Reserve	Losses	HK\$'000	Interests	equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2009	6,151	116,548	1,000	1,750	288	2,279	(188,279)	(60,263)	-	(60,263)
Exercise of share options	-	-	-	-	-	-	-	-	-	-
Currency translation differences	-	-	-	-	(25)	-	-	(25)	-	(25)
Loss for the period	-	-	-	-	-	-	(6,552)	(6,552)	-	(6,552)
Employee share-based compensation	-	-	-	-	-	6	-	6	-	6
Issuance of new shares	960	6,048	-	-	-	-	-	7,008	-	7,008
Expenses for issuance of new shares	-	(87)	-	-	-	-	-	(87)	-	(87)
As at 30 June 2009	7,111	122,509	1,000	1,750	263	2,285	(194,831)	(59,913)	-	(59,913)
As at 1 January 2010	11,896	161,196	1,000	-	287	2,285	(166,215)	10,449	-	10,449
Exercise of share options	-	-	-	-	-	-	-	-	-	-
Shares issued under share placements	35,689	71,378	-	-	-	-	-	107,067	-	107,067
Share expenses	-	(3,864)	-	-	-	-	-	(3,864)	-	(3,864)
Currency translation differences	-	-	-	-	-	-	-	-	-	-
Loss for the period	-	-	-	-	-	-	(5,192)	(5,192)	-	(5,192)
Employee share-based compensation	-	-	-	-	-	(1,264)	1,326	62	-	62
As at 30 June 2010	47,585	228,710	1,000	-	287	1,021	(170,081)	108,522	-	108,522

Notes:

## 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Company was incorporated in the Cayman Islands on 16 November 2001 as an exempted company under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Island.

The unaudited financial statements of the Group have been prepared in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements set out in Chapter 18 of the Rules Governing the Listing Securities on the Growth Enterprise Market (the "GEM Listing Rules") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The unaudited consolidated results for the six months ended 30 June 2010 have not been audited by the Company's auditors, but have been reviewed by the audit committee of the Company.

The accounting policies and basis of preparation adopted for the preparation of the financial statements are consistent with those adopted by the Group in its annual financial statements for the year ended 31 December 2009.

In preparing the condensed consolidated financial statements for the six months ended 30 June 2010, the Directors have given considerations to future financial positions of the Group in light of net assets of approximately HK\$95,414,000 (2009: net liabilities of HK\$59,913,000) as at 30 June 2010. The Directors are taking active steps to improve the financial position of the Group as described below.

- (a) The Group has been taking stringent cost controls in production and general administrative expenses.
- (b) The Group diversifies its business by engaging in film production and entertainment related business.
- (c) The Group completed an Open Offer of 3,568,906,044 shares at HK\$0.03 per share.

## 2. TURNOVER

The Company is principally engaged in investment holding. The principal activities of the Group include film production and distribution, provision of artistes management, advertising and promotion services, the provision of network infrastructure and electrical installation services, digital solution services and investment in securities.

Turnover is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably on the following bases:

- (a) Income derived from the production and distribution of films, when the production is completed and the film is released, the film has been distributed to the cinema circuit and the amount can be measured reliably, which is generally when the cinema circuit confirms to the Group its share of box office receipts.
- (b) Income derived from the licensing of the distribution and broadcasting rights over films, when the Group's entitlement to such payments has been established which, subject to the terms of the relevant agreements, is usually upon delivery of the film negatives to the customers.
- (c) Artiste management fee income and revenue from rendering of services are recognised when the agreed services are rendered.
- (d) Income derived from provision of network infrastructure, electrical installation and digital solution services is recognised and determined using the percentage of completion method. The percentage of completion is calculated by comparing the costs incurred to date with the total estimated costs of the contract. When the contract is considered profitable, it is valued at cost plus attributable profits by reference to the percentage of completion. Any expected loss on individual construction contract is recognised immediately as an expense.
- (e) Interest income is recognised on a time-proportion basis using the effective interest method.
- (f) Advertising income is recognised when the advertisements are published.



### 3. BUSINESS AND GEOGRAPHICAL SEGMENTS

#### *Business segments*

For management purposes, the Group is currently organised into three operating segments, namely films production and distribution and artiste management, network infrastructure and electrical installation services, digital solution services. These segments are the basis on which the Group reports its primary segment information. The principal activities of these segments are as follows:

Films production and distribution and artiste management	-	Production and distribution of films and provision of management services to artistes
Network infrastructure and electrical installation services	-	Provision of network infrastructure and electrical installation services
Digital solution services	-	Provision of information technology solutions including web solutions and system integration

Segment information about these businesses is presented below.

#### Statement of Comprehensive Income for the six months ended 30 June 2010

	Films production and distribution and artiste management	Network infrastructure and electrical installation services	Digital solution services	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	1,295	24	-	1,319
Segment result	(867)	(831)	-	(1,698)
Unallocated corporate expenses				(3,153)
Finance costs				(360)
				<b>(5,211)</b>

**Statement of Financial Position as at 30 June 2010**

	Films production and distribution and artiste management HK\$'000	Network infrastructure and electrical installation services HK\$'000	Digital solution services HK\$'000	Consolidated HK\$'000
<b>Assets</b>				
Segment assets	58,080	11,275	46	69,401
Unallocated corporate assets				70,755
Total assets				140,156
<b>Liabilities</b>				
Segment liabilities	(5,412)	(12,404)	(1,007)	(18,823)
Unallocated corporate liabilities				(12,811)
				(31,634)

## Other information for the six months ended 30 June 2010

	Films production and distribution and artiste management HK\$'000	Network infrastructure and electrical installation services HK\$'000	Digital solution services HK\$'000	Consolidated HK\$'000
Additions to property, plant and equipment	-	2,157	-	2,157
Depreciation of property, plant and equipment	-	237	-	237

## Statement of Comprehensive Income for the six months ended 30 June 2009

	Films production and distribution and artiste management HK\$'000	Network infrastructure and electrical installation services HK\$'000	Digital solution services HK\$'000	Consolidated HK\$'000
Turnover	-	4,028	24	4,052
Segment result	-	13	(2)	11
Other operating income				13
Unallocated corporate expenses				(5,027)
Finance costs				(1,549)
				(6,552)

Statement of Financial Position as at 30 June 2009

	Films production and distribution and artiste management HK\$'000	Network infrastructure and electrical installation services HK\$'000	Digital solution services HK\$'000	Consolidated HK\$'000
<b>Assets</b>				
Segment assets	-	10,876	37	10,913
Unallocated corporated assets				3,868
Total assets				14,781
<b>Liabilities</b>				
Segment liabilities	-	(13,522)	(43)	(13,565)
Unallocated corporate liabilities				(61,129)
Total liabilities				(74,694)

Other information for the six months ended 30 June 2009

	Films production and distribution and artiste management HK\$'000	Network infrastructure and electrical installation services HK\$'000	Digital solution services HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Additions to property, plant and equipment	-	-	-	-	-
Depreciation of property, plant and equipment	-	-	-	146	146

**Geographical segments**

The Group's operations are located in the People's Republic of China ("PRC") including Hong Kong and Macau and its turnover is substantially derived in the PRC including Hong Kong and Macau and its assets are also substantially located in the PRC including Hong Kong and Macau. Accordingly, no analysis by geographical segment is presented.

**4. GAIN ON DISPOSAL OF AN ASSOCIATE**

During the period of 2009, 50% issued share capital of Sino East Oil Services Limited, an inactive company, was disposed to Sino East Oil Company Limited, a company controlled by Dr. Poon Kwok Lim Steven for a consideration of HK\$388,125.

## 5. LOSS BEFORE TAXATION

Loss before taxation has been arrived at after charging:

	Three months ended		Six months ended	
	31 March		30 June	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Operating lease rentals in respect of land and building	134	240	423	437
Staff costs, including directors' remuneration				
Retirement benefits scheme contributions	24	22	54	28
Salaries and allowances	806	1,764	1,848	2,457
	830	1,786	1,902	2,485

## 6. TAXATION

Hong Kong Profits Tax has not been provided for the six months ended 30 June 2010 (2009: Nil) as the Group did not generate any assessable profits in Hong Kong during these periods. The tax credit incurred in the previous period was a result of written back of over provision of taxation in prior years.

Pursuant to the Income Tax Law of the PRC for Enterprise with Foreign Investment and Foreign Enterprises, the Company's subsidiary in the PRC is exempted from income tax for its first two profitable years of operations and is entitled to a 50% relief on the income tax of the PRC for the following three years. No provision for the PRC income tax has been provided as the Company's subsidiary in the PRC has no assessable profit in the PRC for the six months ended 30 June 2010 (2009: Nil).

The Company is exempted from taxation in the Cayman Islands until 2019.

No provision for deferred tax has been provided for the Group because there were no significant timing differences at the reporting date (2009: Nil).

## 7. LOSS PER SHARE

The calculation of basic loss per share for the six months ended 30 June 2010 was based on the unaudited net loss for the period of approximately HK\$5,192,000 (2009: loss of HK\$6,552,000) and on the weighted average number of 1,881,185,905 shares (2009: 629,029,958 shares) deemed to be in issue throughout the periods.

The computation of diluted loss per share did not assume the exercise of the Company's potential ordinary shares granted under the Company's share option schemes and warrants since their exercises would result in a reduction in net loss per share.

## 8. DIVIDEND

The Board does not resolve the payment of an interim dividend for the six months ended 30 June 2010 (2009: Nil).

## 9. PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment of the Group were:

	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Net book value, beginning of year	236	618
Additions	4,309	272
Acquisition of subsidiaries	-	9
Depreciation	(83)	(299)
Written off	(328)	(364)
	<b>4,134</b>	<b>236</b>

## 10. TRADE RECEIVABLES

The Group generally allows a credit period from 60 to 90 days to its trade customers. The ageing analysis of trade receivables, net allowance for bad and doubtful debts as follows:

	<b>30 June 2010</b>	31 December 2009
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Audited)
0 to 60 days	<b>864</b>	573
61 to 90 days	–	–
91 to 180 days	–	11
Over 180 days	<b>8,707</b>	8,997
	<b>9,571</b>	9,581

Included in the balances are debtors with carrying amounts of HK\$8,707,000 (2009: HK\$9,008,000) which are past due at the reporting date for which the Group has not provided for impairment loss. Trade receivables that are past due but not impaired related to a number of customers that have a good track record with the Group. Based on past experience, the Directors believe that no impairment loss is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

The Directors considered that the fair values of trade receivables are not materially different from their carrying amounts because these amounts have short maturity periods at their inception.



## 11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2010	31 December 2009
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
At 1 January	–	–
Addition	1,928	–
Fair value gains	19	–
	<b>1,947</b>	–

All of the financial assets at fair value through profit or loss are equity securities listed in Hong Kong, denominated in Hong Kong dollars and stated at their market value.

## 12. TRADE PAYABLES

The aged analysis of trade payables is stated as follow:

	30 June 2010	31 December 2009
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
0 to 30 days	156	395
31 to 60 days	64	48
61 to 90 days	17	–
91 to 180 days	–	184
Over 180 days	10,608	10,599
	<b>10,845</b>	11,226

## 13. CONTINGENT LIABILITIES

During the period of 2008, Network Engineering Limited (the "Network"), a subsidiary of the Company had entered into an agreement to provide engineering services in favor of a reputable company in Hong Kong (the "contractor"). Pursuant to which, Network has offered a performance bonds of HK\$200,000 in favor of the contractor to indemnify the contractor the due performance of the agreement signed. The Directors, on the basis of work schedule, have not considered it necessary to make a provision for in the financial statements.

## FINANCIAL REVIEW

For the six months ended 30 June 2010, the Group recorded a decrease in turnover of approximately HK\$2.7 million, representing a drop of approximately 67% over the corresponding period in 2009. The decrease was due to the suspension of media business in 2009. The turnover for the period under review was attributable to the film and entertainment business and the engineering business.

Staff cost for the period under review decreased to approximately HK\$1.9 million from as compared to the corresponding period approximately HK\$2.5 million in the previous year. The decrease in staff cost was mainly due to reduced headcounts for media business during the period under review.

In spite of inclusion of film production cost, subcontracting and production costs for the period under review decreased approximately HK\$2.5 million due to decrease of engineering business.

## HUMAN RESOURCES & REMUNERATION POLICY

The directors of the board (the "Directors") believe that the quality of its employees is the most important factor in sustaining the Group's growth and improving its profitability. The Group's remuneration package is structured with reference to the individual performance, working experience and prevailing salary levels in the market. In addition to basic salaries and mandatory provident fund, staff benefits include medical coverage scheme and share options.

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

## MANAGEMENT DISCUSSION AND ANALYSIS

During the period under review, the Group focused on the film and entertainment businesses in view of strong growth of China market and support from government policies on cultural development.

Our movie, namely “The Legend is Born – Ip Man” was released in late June 2010. As the result has not yet been finalized, substantial investment has been capitalized.

On top of our film production, our two upcoming artistes, To Yu Hang and Rose Chan, have been gaining popularity. The management believes that the artistes management could bring positive impact to the Company.

In coming period, the management plans to produce two to three new movies, which will start in the second half year of 2010 and the first quarter of 2011. Also, the Company continues to seek and explore other film-related development opportunities, including but not limited to, training and artiste expansion.

As the competition in the engineering industry has affected the margin of projects, the contribution of this business becomes slow. The Group decided not to expand this business segment.

## SHARE OPTION SCHEMES

Pursuant to a written resolution of the sole shareholder of the Company dated 22 July 2002, the Company conditionally adopted and approved the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, the principal terms of which are set out in the sections headed “Pre-IPO Share Option Scheme” and “Post-IPO Share Option Scheme” in Appendix IV to the prospectus of the Company dated 9 October 2002 (the “Prospectus”).

## Pre-IPO Share Option Scheme

As at 30 June 2010, the share options to subscribe for an aggregate of 1,970,966 shares of the Company granted pursuant to the Pre-IPO Share Option Scheme were outstanding. A portion of each grantee's right to exercise the options that has been conditionally granted under the Pre-IPO Share Option Scheme shall be deemed to have vested on 17 June 2002 (such portion is fixed on the basis of the grantee's employment period and/or contribution to the Group and is set in the table below) and the rest of the right shall continue to vest over a period of not more than 4 years from 17 June 2002 (the "Listing Date") on a monthly basis each time from 1/48th of the total number of shares comprised in the options and, subject to that no options granted under the Pre-IPO Share Option Scheme can be exercised before the expiration of 1 year from the Listing Date, any vested right shall remain exercisable for 10 years from the date of acceptance of the relevant options. No further options will be offered or granted under the Pre-IPO Share Option Scheme as the right to do so ends on 9 October 2002, being the date of publication of the Prospectus.

The details of the Pre-IPO Share Option Scheme as at 30 June 2010 are set out as follows:

Category of participants	Exercise price per share* (HK\$)	Number of share options*			Outstanding
		As at 1 January 2010	Exercised during the period	Lapsed during the period	as at 30 June 2010
Advisors and consultants	0.306	1,965,074	-	-	1,965,074
Employees	0.081	5,892	-	-	5,892
<b>Total</b>		<b>1,970,966</b>	<b>-</b>	<b>-</b>	<b>1,970,966</b>

## Post-IPO Share Option Scheme

As at 30 June 2010, the share options to subscribe for an aggregate of 36,338,414 shares of the Company granted pursuant to the Post-IPO Share Option Scheme were outstanding. The details of the Post-IPO Share Option Scheme as at 30 June 2010 are set out as follows:

Category of participants	Exercise price per share (HK\$)	Date of grant	Number of share options				Outstanding as at 30 June 2010
			As at 1 January 2010	Granted during the period	Exercised during the period	Lapsed during the period	
Directors	0.353*	10 November 2006	8,838,414*	-	-	-	8,838,414*
Directors	0.061	13 May 2010	-	21,000,000	-	-	21,000,000
Directors	0.0564	20 May 2010	-	6,500,000	-	-	6,500,000
Total			8,838,414	27,500,000	-	-	36,338,414

- \* Pursuant to the announcement regarding to the result of the Open Offer dated 12 April 2010, the exercise price of the share options and the number of outstanding share options as at the completion of the Open Offer were required to be adjusted as a result of the Open Offer. The auditors of the Company has reviewed and agreed with the adjustments to the share options.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2010, the interests and short positions of the Directors and chief executive of the Company and their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rule 5.46 of the GEM 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	Number of shares of the Company			Approximate percentage of the issued share capital of the Company
	Beneficial owner	Interest in controlled corporation	Total	
Mr. Sin Kwok Lam <sup>1</sup>	248,700,000	-	248,700,000	5.23%

Note:

1. Mr. Sin Kwok Lam beneficially owned 248,700,000 shares of the Company, representing approximately 5.23% of the issued share capital of the Company. By virtue of SFO, Miss Law Po Yee, the spouse of Mr. Sin Kwok Lam, was deemed to be interested in all the shares in which Mr. Sin Kwok Lam was interested.

## 2. Rights to acquire shares in the Company

### *i. Post-IPO Share Option Scheme*

Name of Directors	Date of grant	Exercise price per share (HK\$)	Exercisable period	Number of share options				
				As at 1 January 2010	Granted during the period	Exercised during the period	Lapsed during the period	As at 30 June 2010
Mr. Poon Shu Yan, Joseph	10 November 2006	0.353*	10 November 2006 to 9 November 2016	8,838,414*	-	-	-	8,838,414*
Mr. Poon Shu Yan, Joseph	20 May 2010	0.0564	20 May 2010 to 19 May 2020	-	1,000,000	-	-	1,000,000
Mr. Tang Yat Ming, Edward	13 May 2010	0.061	13 May 2010 to 12 May 2020	-	4,000,000	-	-	4,000,000
Mr. Lam Kwok Hing, Wilfred	13 May 2010	0.061	13 May 2010 to 12 May 2020	-	15,000,000	-	-	15,000,000
Mr. Chui Chi Yun, Robert	13 May 2010	0.061	13 May 2010 to 12 May 2020	-	2,000,000	-	-	2,000,000
Mr. Li Sin Hung, Maxim	20 May 2010	0.0564	20 May 2010 to 19 May 2020	-	1,500,000	-	-	1,500,000
Mr. Chan Tin Lup, Trevor	20 May 2010	0.0564	20 May 2010 to 19 May 2020	-	2,000,000	-	-	2,000,000
Dr. Wong Lung Tak, Patrick	20 May 2010	0.0564	20 May 2010 to 19 May 2020	-	2,000,000	-	-	2,000,000

\* Pursuant to the announcement regarding to the result of the Open Offer dated 12 April 2010, the exercise price of the share options and the number of outstanding share options as at the completion of the Open Offer were required to be adjusted as a result of the Open Offer. The auditors of the Company has reviewed and agreed with the adjustments to the share options.

Save as disclosed above, none of the Directors, chief executive or their associates had, as at 30 June 2010, any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

Other than as disclosed above, at no time during the period was the Company, its subsidiaries or holding company a party to any arrangement to enable the Directors, their spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As at 30 June 2010, the persons or corporations who had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of Part XV of the SFO or had otherwise been notified to the Company were as follows:

### 1. Long Positions in the shares of the Company

<u>Name of shareholders</u>	<u>Capacity</u>	<u>No. of shares held</u>	<u>Approximate percentage of the issued share capital of the Company</u>
Tse Young Lai	Beneficial owner	1,182,603,332	24.85%



## MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company throughout the six months ended 30 June 2010.

## CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices and procedures with an aim to maximizing the shareholders' interests as well as to enhancing the stakeholders' transparency and accountability. In this respect, the Company has complied with most of the code provisions set out in the Code on Corporate Governance (the "Code") contained in Appendix 15 of the GEM Listing Rules, except for the deviation from code provision A.4.2 of the Code.

Under code provision A.4.2 of the Code, every director should be subject to retirement by rotation at least once every three years. The Directors have not been required by the Articles of Association to retire by rotation once every three years. However, according to Article 87 of the Articles of Association, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation save any Director holding office as Chairman and/or Managing Director. The Board will ensure the retirement of each Director, other than the one who holds the office as Chairman and/or Managing Director, by rotation at least once every three years in order to comply with the Code provisions. The Chairman of the Company will not be subject to retirement by rotation as stipulated under code provision A.4.2 of the Code as the Board considers the continuity of office of the Chairman enables the Group to maintain a consistent leadership which is of crucial importance to the smooth operations of the Group.

The Company has prepared a corporate governance report in accordance with Rule 18.44(2) of the GEM Listing Rules attached to the 2009 annual report of the Company.



## **COMPETING INTERESTS**

None of the Directors or management shareholders of the Company (as defined in the GEM Listing Rules) or their respective associates had any interest, whether directly or indirectly, in a business which competes or may compete with the business of the Group.

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

During the six months ended 30 June 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **AUDIT COMMITTEE**

As required by Rules 5.28 to 5.33 of the GEM Listing Rules, the Company has established an audit committee (the "Audit Committee") in 2002 with written terms of reference, which deal clearly with its authorities and duties. The primary duties of the Audit Committee are to review the Company's annual reports and accounts, half-year reports and quarterly reports and discuss with the management over issues relating to auditing, internal control and financial reporting. The Audit Committee now comprises three independent non-executive Directors, namely Mr. Chui Chi Yun, Robert (Chairman), Mr. Chan Tin Lup, Trevor and Dr. Wong Lung Tak, Patrick.

The Group's unaudited results for the six months ended 30 June 2010 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results has complied with applicable accounting standards and requirements and that adequate disclosures have been made.

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

*Executive Directors:*

Mr. Sin Kwok Lam (*Chairman*)

Mr. Tang Yat Ming, Edward

Miss Law Po Yee

Mr. Poon Shu Yan, Joseph

Mr. Li Sin Hung, Maxim

*Non-executive Directors:*

Mr. Lam Kwok Hing, Wilfred (*Vice Chairman*)

*Independent Non-executive Directors:*

Mr. Chan Tin Lup, Trevor

Mr. Chui Chi Yun, Robert

Dr. Wong Lung Tak, Patrick

Hong Kong, 10 August 2010

On behalf of the Board

**National Arts Holdings Limited**

(formerly known as Vertex Group Limited)

**Sin Kwok Lam**

*Chairman*