



National Arts

National Arts Holdings Limited

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

Interim Report
2011



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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.

CORPORATE INFORMATION

Board of Directors

Chairman and Non-executive Director

Mr. Sin Kwok Lam

Vice Chairperson and Executive Director

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

Tang Yat Ming Edward
(resigned on 1 June 2011)

Non-executive Director

Mr. Li Sin Hung Maxim*

Independent Non-executive Directors

Mr. Chui Chi Yun, Robert

Mr. Chan Tin Lup, Trevor

Dr. Wong Lung Tak, Patrick

* Redesignated from the post of Executive Director to Non-executive Director on 9 May 2011.

Company Secretary

Mr. Wong Lim Yam

(appointed on 9 May 2011)

Mr. Tang Yat Ming Edward

(resigned on 9 May 2011)

Compliance Officer

Miss Law Po Yee

(appointed on 9 May 2011)

Mr. Li Sin Hung Maxim

(resigned on 9 May 2011)

Head Office and Principal Place of Business

Unit B, 2/F Jone Mult Factory Building

169 Wai Yip Street

Kwun Tong

Kowloon, Hong Kong

Share Registrar and Transfer Offices

Principal share registrar and transfer office

Codan Services Limited

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda



Hong Kong branch share registrar and transfer office

Tricor Secretaries Limited
26/F., Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Authorised Representatives

Miss Law Po Yee
(appointed on 9 May 2011)
Mr. Chow Kai Weng
(appointed on 9 May 2011)
Mr. Tang Yat Ming Edward
(resigned on 9 May 2011)
Mr. Li Sin Hung Maxim
(resigned on 9 May 2011)

Committees

Audit Committee

Mr. Chui Chi Yun, Robert (*Chairman*)
Mr. Chan Tin Lup, Trevor
Dr. Wong Lung Tak, Patrick

Remuneration Committee

Mr. Chui Chi Yun, Robert (*Chairman*)
Mr. Chan Tin Lup, Trevor
Dr. Wong Lung Tak, Patrick

Legal Advisors

Conyers Dill & Pearman

Auditors

BDO Limited, Certified Public Accountants

Principal Bankers

Hang Seng Bank

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Group's Website

<http://www.nationalarts.hk>

Stock Code

8228

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 2011, together with the comparative figures for the corresponding period in 2010 as follows:

Condensed Consolidated Statement of Comprehensive Income

	Note	Three months ended		Six months ended	
		2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
CONTINUING OPERATIONS					
Turnover	2	2,471	88	3,485	1,295
Other operating income		13	-	264	-
Direct operating and subcontracting costs		-	(54)	(522)	(44)
Cost of film production		(1,746)	-	(2,116)	(1,122)
Staff costs		(1,191)	(830)	(6,490)	(1,717)
Depreciation of property, plant and equipment		(1,163)	(61)	(3,835)	(328)
Other operating expenses		(2,795)	(837)	(7,198)	(2,744)
Finance costs	4	(750)	(88)	(3,022)	(357)
Gain on disposal of subsidiaries	5	3,557	-	5,677	-
Loss before income tax	6	(1,604)	(1,782)	(13,757)	(5,017)
Income tax expense	7	-	-	-	-
Loss for the period from continuing operations		(1,604)	(1,782)	(13,757)	(5,017)
DISCONTINUED OPERATIONS					
Loss for the period from discontinued operations	8	(2)	(3)	(31)	(194)
Loss for the period		(1,606)	(1,785)	(13,788)	(5,211)
Other comprehensive (loss)/income:					
Fair value (loss)/gain on financial assets at fair value through profit and loss		(149)	-	(622)	19
Total comprehensive loss for the period		(1,755)	(1,785)	(14,410)	(5,192)



Note	Three months ended		Six months ended	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Total comprehensive loss attributable to:				
Owners of the Company	(1,188)	(1,785)	(11,049)	(5,192)
Non-controlling interests	(567)	-	(3,361)	-
	(1,755)	(1,785)	(14,410)	(5,192)

Loss per share attributable to owners of the company

Basic: – From continuing operations	9	HK\$(0.32) cents	HK\$(0.18) cents	HK\$(2.19) cents	HK\$(0.27) cents
– From discontinued operations	9	HK\$(0.00) cents	HK\$(0.00) cents	HK\$(0.00) cents	HK\$(0.01) cents
Diluted: – From continuing operations	9	N/A	N/A	N/A	N/A
– From discontinued operations	9	N/A	N/A	N/A	N/A

Condensed Consolidated Statement of Financial Position

		30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	11	403,510	17,168
Goodwill		8,974	8,974
		412,484	26,142
Current assets			
Film products		1,817	3,933
Film production in progress		31,642	32,247
Trade receivables	12	2,168	2,656
Financial assets at fair value through profit or loss	13	11,311	2,136
Prepayments, deposits and other receivables		14,903	3,645
Cash and cash equivalents		71,530	160,827
		133,371	205,444
Current liabilities			
Trade payables	14	22	2,067
Other payables and accruals		7,509	7,282
Deferred revenue	15	3,200	–
Amounts due to a shareholder		4,546	–
Bank borrowings – secured		3,464	3,735
Provision for income tax		8	8
		18,749	13,092
Net current assets		114,622	192,352
Non-current liabilities			
Convertible bonds	16	80,564	–
		80,564	–
Net assets		446,542	218,494



	30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited)
Note		
EQUITY		
Share capital	8,013	6,658
Reserves	272,138	211,836
Equity attributable to owners of the Company	280,151	218,494
Non-controlling interests	166,391	–
Total equity	446,542	218,494

Condensed Consolidated Cash Flow Statement

	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash outflow from operating activities	(13,951)	(25,675)
Net cash outflow from investing activities	(408,740)	(39,143)
Net cash inflow from financing activities	421,806	135,275
(Decrease)/increase in cash and cash equivalents	(885)	70,457
Cash and cash equivalents at beginning of period	72,173	1,692
Effect of foreign exchange rate changes	242	24
Cash and cash equivalents at end of period	71,530	72,173



Unaudited Statement of Movement to and From Reserve

	Attributable to owners of the Company									Non-controlling Interests	Total equity
	Share Capital	Share Premium	Special Reserve	Translation Reserve	Share Option Reserve	Contributed Surplus	Convertible Bonds Reserve	Accumulated Losses	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2010 (audited)	11,896	161,196	1,000	287	2,285	-	-	(166,215)	10,449	-	10,449
Shares issued under share placements	35,689	71,378	-	-	-	-	-	-	107,067	-	107,067
Share expenses	-	(3,864)	-	-	-	-	-	-	(3,864)	-	(3,864)
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 (unaudited)	47,585	228,710	1,000	287	1,021	-	-	(170,081)	108,522	-	108,522
As at 1 January 2011 (audited)	6,658	122,282	1,000	308	9,455	78,791	-	-	218,494	-	218,494
New shares issued under share placements	1,350	4,540	-	-	-	-	-	-	5,890	-	5,890
Share expense	-	(199)	-	-	-	-	-	-	(199)	-	(199)
Share issued upon exercise of share options	5	239	-	-	(78)	-	-	78	244	-	244
Acquisition of shares held by minority shareholders	-	-	-	-	-	-	-	-	-	169,301	169,301
Recognition of equity component of convertible bonds	-	-	-	-	-	-	62,754	-	62,754	-	62,754
Currency translation differences	-	-	-	507	-	-	-	-	507	451	958
Loss for the period	-	-	-	-	-	-	-	(11,049)	(11,049)	(3,361)	(14,410)
Transfer of lapsed options to accumulated losses	-	-	-	-	(981)	-	-	981	-	-	-
Employee share-based compensation	-	-	-	-	3,510	-	-	-	3,510	-	3,510
Transfer to accumulated losses upon disposal of subsidiaries	-	-	-	(287)	-	-	-	287	-	-	-
As at 30 June 2011 (unaudited)	8,013	126,862	1,000	528	11,906	78,791	62,754	(9,703)	280,151	166,391	446,542

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 Islands.

On 14 October 2010, the Company deregistered in the Cayman Islands and duly continued in Bermuda as an exempted company under the laws of Bermuda effective on 14 October 2010. The registered office of the Company has been changed to Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

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 of 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 2011 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 2010.



2. TURNOVER

The Company is principally engaged in investment holding. The principal activities of the Group include film production and distribution, the provision of artiste management, advertising and promotion services, the provision of studio, theme park and hotels, digital solutions 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) Advertising and promotion income and revenue from rendering of services are recognised when the agreed services are rendered.
- (e) Income derived from provision of 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.

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business information

The Group manages its businesses by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resources allocation and performance assessment, the Group is currently organised into the following two operating segments. No operating segments have been aggregated to form the following reportable segments.

- | | | |
|---|---|---|
| Films production and distribution and
artiste management | – | Production and distribution of films and provision of
management services to artistes |
| Digital solution services | – | Provision of information technology solutions including
web solutions and system integration |

One operation (Network infrastructure and electrical installation services) has been discontinued in the prior year. The segment information reported in the following does not include any amounts for these discontinued operations, which are described in more details in note 8.



Segment turnovers and results

The following is an analysis of the Group's turnovers and results by reportable segments:

	Segment Turnover		Segment loss	
	Six months ended 30 June		Six months ended 30 June	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Films production and distribution and artiste management	3,485	1,295	847	129
Digital solution services	-	-	-	-
Total for continuing operations	3,485	1,295	847	129
Other operating income			264	-
Gain on disposal of subsidiaries			5,677	-
Unallocated corporate expenses			(18,145)	(4,770)
Finance costs			(3,022)	(357)
Loss before income tax from continuing operations			(14,379)	(4,998)

Turnover reported above represents turnover generated from external customers. There were no inter-segment sales during the period (2010: Nil).

Segment loss represents the loss incurred by each segment without allocation of central administration costs including directors' salaries, gain on disposal of subsidiaries, other operating income, finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

Segment assets and liabilities

	30 June 2011 HK\$'000	30 June 2010 HK\$'000
Segment assets		
Films production and distribution and artiste management	54,938	58,080
Digital solution services	–	46
Total segment assets	54,938	58,126
Unallocated	490,917	70,755
Consolidated assets	545,855	128,881
Segment liabilities		
Films production and distribution and artiste management	(4,924)	(5,412)
Digital solution services	–	(1,007)
Total segment liabilities	(4,924)	(6,419)
Unallocated	(92,842)	(12,811)
Consolidated liabilities	(97,766)	(19,230)

For the purposes of monitoring segment performance and allocating resources between segments;

- all assets are allocated to reportable segments other than corporate assets; and
- all liabilities are allocated to reportable segments other than corporate liabilities.



Geographical information

All the group's turnover and non-current assets are principally attributable to the Peoples' Republic of China ("PRC") including Hong Kong and its turnover is substantially derived in the PRC including Hong Kong and its assets are also substantially located in the PRC including Hong Kong. Accordingly, no analysis by geographical segment is presented.

4. FINANCE COSTS

	Three months ended 31 March		Six months ended 30 June	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Interest on borrowings wholly repayable within five years:				
Continuing operations				
Convertible bonds (note 16)	738	–	2,997	–
Other borrowings	12	88	25	357
	750	88	3,022	357
Discontinued operations				
Convertible bonds	–	–	–	–
Other borrowings (note 8)	1	3	1	3
	1	3	1	3
Total finance costs	751	91	3,023	360

5. GAIN ON DISPOSAL OF SUBSIDIARIES

During the period under review, the Company completed the disposal of its 100% equity interest in Network Engineering Limited (the "Network") to Silvercord Management Limited, a company controlled by a former executive director, Mr. Poon Shu Yan, at a consideration of HK\$1 (the "Disposal"). Network carried out the Group's provision of engineering services and the Disposal was consistent with the Group's strategy, which discontinued the engineering business by the end of 2010. The disposal recorded a gain due to Network incurring a liability of approximately HK\$3.6 million on the date of Disposal.

The Company also completed the liquidation of its 100% equity interest in Sinoworld Media Company Limited (the "Sinoworld Media") and Sinoworld CNW Publishing Limited (the "Sinoworld CNW"). Sinoworld Media and Sinoworld CNW carried out the Group's provision of publication of print media business, which its discontinuance was effective by the end of 2008. The disposal recorded a gain due to Sinoworld Media and Sinoworld CNW incurring a liability of approximately HK\$2.1 million on the date of liquidation.

6. LOSS BEFORE INCOME TAX

Loss before income tax has been arrived at after charging :

	Three months ended 31 March		Six months ended 30 June	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Continuing operations				
Minimum lease payments under operating leases in respect of rented premises	331	134	1,181	423
Staff costs, including directors' remuneration:				
Salaries and allowances	1,155	806	2,900	1,673
Retirement benefits scheme contributions	36	24	80	44
Share option expense	-	-	3,510	-
	1,191	830	6,490	1,717
Discontinued operations (note 8)				
Staff costs, including directors' remuneration:				
Salaries and allowances	-	-	-	175
Retirement benefits scheme contributions	-	-	-	10
	-	-	-	185



7. INCOME TAX EXPENSE

Hong Kong Profits Tax has not been provided for the six months ended 30 June 2011 (2010: 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.

PRC foreign enterprise income tax has not been provided as the PRC subsidiaries incurred a loss for taxation purposes for the six months ended 30 June 2011 (2010: Nil).

At the reporting date, the Company did not have any significant unrecognised deferred tax liabilities (2010: Nil).

8. DISCONTINUED OPERATIONS

The results of the discontinued operations included in the consolidated statements of comprehensive income and consolidated statement of cash flow is set out below. The comparative loss and cash flows from discontinued operations have been re-presented to include those operations classified as discontinued in the current period.

	Three months ended		Six months ended	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited) (Restated)	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited) (Restated)
Turnover	-	24	-	24
Direct operating and subcontracting costs	-	(24)	-	(24)
Staff costs (note 6)	-	-	-	(185)
Other operating expenses	(1)	-	(30)	(6)
Finance costs (note 4)	(1)	(3)	(1)	(3)
Loss before income tax	(2)	(3)	(31)	(194)
Income tax expense	-	-	-	-
Loss for the period from discontinued operations	(2)	(3)	(31)	(194)
Cash flows (used in)/generated from discontinued operations				
Net cash (used in)/generated from operating activities	(205)	(7)	(359)	156
Net cash (outflow)/inflow	(205)	(7)	(359)	156

9. LOSS PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

The calculation of basic loss per share from continuing operations for the six months ended 30 June 2011 was based on the unaudited net loss for the period of approximately HK\$11,018,000 (2010: loss of HK\$4,998,000) and on the weighted average number of 659,632,995 shares (2010: 1,881,185,905 shares) deemed to be issued throughout the periods.

The calculation of basic loss per share from discontinued operations for the six months ended 30 June 2011 was based on the unaudited net loss for the period of approximately HK\$31,000 (2010: loss of HK\$194,000) and on the weighted average number of 659,632,995 shares (2010: 1,881,185,905 shares) deemed to be issued 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, warrants and convertible bonds since their exercises would result in a reduction in net loss per share.

10. DIVIDEND

The Board does not resolve the payment of an interim dividend for the six months ended 30 June 2011 (2010: Nil).

11. PROPERTY, PLANT AND EQUIPMENT

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

	30 June	31 December
	2011	2010
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Net book value, beginning of year	17,168	236
Additions:		
Property under construction	38,396	–
Other property, plant and equipment	1,175	18,163
Acquired through acquisition of subsidiaries:		
Property under construction	2,400	–
Leasehold land (note 17)	347,436	–
Other property, plant and equipment	1,118	–
Depreciation	(3,763)	(1,137)
Disposals	(420)	(94)
Closing net book amount	403,510	17,168



12. 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:

	30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited)
0 to 60 days	488	2,628
61 to 90 days	10	10
91 to 180 days	1,639	10
Over 180 days	31	8
	2,168	2,656

Included in the balances are debtors with carrying amounts of HK\$1,670,000 (2010: HK\$18,000) 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.

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited)
At 1 January	2,136	–
Addition	10,015	1,928
Fair value (loss)/gain	(840)	208
	11,311	2,136

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.

14. TRADE PAYABLES

The aged analysis of trade payables is stated as follow:

	30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited)
0 to 30 days	–	–
31 to 60 days	–	–
61 to 90 days	–	–
91 to 180 days	–	–
Over 180 days	22	2,067
	22	2,067

15. DEFERRED REVENUE

On 11 May 2011, a subsidiary of the Group entered into an agreement with Broad Sky Investment Limited, an independent third party, in connection with entry tickets to Wong Tai Sin Temple of the Xiqiao Mountain Dream Park Project. In the agreement, Broad Sky Investment Limited agreed to purchase 375,000 tickets in the form of advance sale with expiry date 31 December 2012. The advance sale is recorded as deferred revenue from the date of sales of these prepaid tickets.

16. CONVERTIBLE BONDS

The movement of the liability component of the convertible bonds is set out below:

	30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited)
At 1 January	–	–
Issued during the period:		
Convertible Bond Batch 1 (“CB1”) (note 17)	54,754	–
Convertible Bond Batch 2 (“CB2”) (note 17)	22,813	–
	77,567	–
Interest recognised for the period (note 4)	2,997	–
At 30 June	80,564	–

The convertible bonds are compound financial instruments containing two components, liability and equity elements. The fair value of the liability component was calculated using the discounted cash flows model. The fair value of equity component was estimated using Binomial model.



17. ACQUISITION OF ASSETS AND LIABILITIES THROUGH ACQUISITION OF SUBSIDIARIES

As at 1 March 2011, the Company acquired 51% equity interests of Head Return Limited (“HRL”) and Expand Pacific Limited (“EPL”) each from Mr. Sin Kwok Lam (“the vendor”), Chairman and Non Executive director of the Company, at a total consideration of HK\$300,000,000. The consideration is to be satisfied in the following manners in accordance with the terms of the acquisition agreement:

- (i) as to HK\$30,000,000 by cash to the vendor at completion;
- (ii) as to HK\$148,500,000 by the issue of 135,000,000 shares at the issue price of HK\$1.1 per share to the vendor or its nominee at completion; and
- (iii) as to the balance of HK\$121,500,000 by the issuance of the CB1 in the principal amount of HK\$71,500,000 and the CB2 in the principal amount of HK\$50,000,000 to the vendor.

The acquisitions were accounted for as acquisition of assets and liabilities as the operations do not constitute business for accounting purpose.

The fair value of net assets acquired and the fair value of the total cost of the acquisition are as follows:

	Notes	HK\$'000
Net liabilities of HRL as at the date of acquisition		(1,159)
Net liabilities of EPL as at the date of acquisition		(765)
Adjustment for leasehold land (note 11)	(a)	347,436
Fair value of net identifiable assets		345,512
Non-controlling interests (49%)		(169,301)
		<u>176,211</u>
Cash		30,000
Issue of CB1 (note 16)	(b)	94,478
Issue of CB2 (note 16)	(c)	45,843
Issue of consideration shares	(d)	5,890
Fair value of the total cost of the acquisition		<u>176,211</u>

- (a) The amount of HK\$347,436,000 represented the fair value of the leasehold land was determined with reference to the opinion as at 30 November 2010 prepared by RHL Appraisal Limited, an independent firm of qualified professional valuers not connected to the Group.
- (b) The CB1 was issued at the principal amount of HK\$71,500,000 to the vendor with a maturity date due on 28 February 2014. The interest rate of the CB1 is 1% on the outstanding principal amount from time to time payable on each anniversary day of the issue of CB1. The CB1 will, at the option of the vendor, be convertible at any time after 1 March 2011 into ordinary shares of the Company at an initial conversion price of HK\$1.1 per share. The company engaged Greater China Appraisal Limited ("Greater China"), an independent firm of valuers, to perform a valuation on the fair value of CB1. The fair value of approximately HK\$54,754,000 and HK\$39,724,000 were credited as liability component and equity component of CB1 respectively.
- (c) The CB2 was issued at the principal amount of HK\$50,000,000 to the vendor with a maturity date due on 28 February 2017. The interest rate of the CB2 is 1% on the outstanding principal amount from time to time payable on each anniversary day of the issue of CB2. The CB2 shall be convertible at any time at an initial conversion price of HK\$1.1 per share after receipt of a confirmation that the Guaranteed Profits have been accomplished. The company engaged Greater China to perform a valuation on the fair value of CB2. The fair value of approximately HK\$22,813,000 and HK\$23,030,000 were credited as liability component and equity component of CN2 respectively.

The vendor had given a guarantee to the Company that the total profit after tax of HRL and EPL to be determined under HKFRS for the years ending 31 December 2011, 2012, 2013, 2014 and 2015 (the "Guarantee Period") or any one of the five financial years shall be no less than HK\$50,000,000 (the "Guarantee Amount"). In the event that HRL and EPL cannot achieve the Guarantee Amount during the Guarantee Period, the principal amount of CB2 shall only be adjusted and reduced by the shortfall subject to a maximum amount of HK\$50,000,000.

- (d) A fair value of HK\$5,890,000 of the consideration was satisfied by way of issue of a total of 135,000,000 consideration shares to the vendor at HK\$1.1 per consideration share. As the acquisition was considered as a purchase of net assets and part of the consideration was settled by the Company's equity instruments, the acquisition was an equity settled share based payment transaction. According to HKFRS 2, the fair value of the equity instruments should be recognised based on the fair value of the net assets acquired. As such, the Company's share capital and share premium were credited by approximately HK\$1,350,000 and HK\$4,540,000 respectively.



18. COMMITMENTS

(a) Commitments under operating lease

- (i) The Group had the following future aggregate minimum lease payments under non-cancellable operating leases which fall due as follows:

	30 June	31 December
	2011	2010
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Not later than one year	4,231	95
Later than one year and not later than five years	21,385	–
Later than five years	168,308	–
	193,924	95

- (ii) At the end of the reporting period, the Group had authorised but not contracted for in respect of operating leases in PRC which are as followings:

	30 June	31 December
	2011	2010
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Authorised but not contracted for:		
Operating leases in PRC	174,621	–
	174,621	–

(b) Capital commitments

The Group had the following capital commitments:

	30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited)
<hr/>		
Contracted but not provided for:		
Acquisition of subsidiaries	–	300,000
Investment in subsidiaries	33,408	–
	<hr/>	
	33,408	300,000
	<hr/>	

(c) Other commitments in respect of property under construction

	30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited)
<hr/>		
Contracted but not provided for	46,105	–
	<hr/>	

19. PLEDGE OF ASSETS

Assets with the following carrying amounts have been pledged to secure general banking facilities granted to the Group, set out as the followings:

	30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited)
<hr/>		
Leasehold land and buildings	6,694	6,789
	<hr/>	
	6,694	6,789
	<hr/>	



FINANCIAL REVIEW

For the six months ended 30 June 2011, the Group reported total turnover of approximately HK\$3.5 million, compared with approximately HK\$1.3 million for the corresponding period a year ago, representing a growth of approximately 169.1%. The turnover growth was because of both artiste management fee income and income derived from the production and distribution of films increased. The Group incurred a loss of approximately HK\$14.4 million for the period under review as compared to a loss of approximately HK\$5.2 million in the same period last year. The increase in loss was mainly due to: (i) charging of non-cash imputed interest in the amount of approximately HK\$3.0 million on the liability components of the convertible bonds issued in March 2011 for the acquisition of the development project located near Xiqiao Mountain (西樵山) in Foshan comprising a film studio, a theme park and hotels (the “Xiqiao Mountain Dream Park Project”); (ii) non-cash accounting charge of approximately HK\$3.5 million arising from grant of share options to directors and management of the Company; (iii) depreciation recorded an increase to HK\$3.8 million mainly because of the amortisation of leasehold land arising from the acquisition of 51% equity interests in HRL and EPL; and (iv) the inclusion of the start-up loss of the Xiqiao Mountain Dream Park Project during the period under review. The increased loss has been partly offset by the realised gain of approximately HK\$5.7 million arising from the disposal; (i) the network infrastructure and electrical installation services businesses; and (ii) publication of print media businesses.

On 11 May 2011, a subsidiary of the Group entered into an agreement with Broad Sky Investment Limited, an independent third party, in connection with entry tickets to Wong Tai Sin Temple of the Xiqiao Mountain Dream Park Project. In the agreement, Broad Sky Investment Limited agreed to purchase 375,000 tickets in the form of advance sale with expiry date 31 December 2012. The advance sale is recorded as deferred revenue from the date of sales of these prepaid tickets. As at 30 June 2011, deferred revenue of the Group amounted to HK\$3.2 million.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2011 (2010: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Xiqiao Mountain Dream Park Project

In March 2011, the Group successfully completed a milestone acquisition of 51% equity interests of HRL and EPL each at a total consideration of HK\$300.0 million as to HK\$30.0 million cash, as to HK\$148.5 million by issue of 135 million new shares of HK\$0.01 each in the capital of the Company at an issue price of HK\$1.1 per share and as to HK\$121.5 million by issue of convertible bonds, in aggregate, convertible into 110,454,545 shares of HK\$0.01 each in the capital of the Company. The Group will be engaged in the development of the film studio, theme park and hotels businesses on a piece of land of about 1,016 Mu (including 180 Mu lake area), located near Xiqiao Mountain (西樵山) in Foshan. Following the completion of the disposal of the loss-making network infrastructure and electrical installation services businesses in March 2011, the Group will continue to be engaged in the film and entertainment businesses and will expand its core business into the promising film studio, theme park and hotels businesses in view of strong growth of China market and support from government policies on cultural development. This strategic move demonstrates the Group's commitment to create value to our shareholders.

Wong Tai Sin Temple and Ti Tsang Wang Temple, which are now erected in the site of former Xiqiao Mountain Saint Huang Daxian Garden (西樵山黃大仙聖境園) in Foshan commenced operations on 19 July 2011. As it is one of the four best mountains in Guangdong coupled with names of National 4A Scenic Spot and National GeoPark, tourists have made good comments. The Group will strive to nurture tourists flow in order to establish a group of loyal and regular tourists who may also introduce new tourists to us.

Films production, distribution and artiste management

With the completion of the film "The Woman Knight of Mirror Lake – Qiu Jin" during the period and slated for release in second half of 2011. During the period, artiste management business recorded a promising growth with the artiste management fee income increased by 453.8% as compared with the same period of last year.



Capital Structure and Gearing Ratio

	30 June 2011		31 December 2010	
	Amount	Relative %	Amount	Relative %
	(Unaudited) HK\$'000		(Audited) HK\$'000	
Bank borrowings – secured	3,464	1.0%	3,735	1.7%
Convertible bonds (liability component)	80,564	22.1%	–	–
Total borrowings	84,028	23.1%	3,735	1.7%
Equity	280,151	76.9%	218,494	98.3%
Total capital employed	364,179	100.0%	222,229	100.0%

The Group's gearing ratio was approximately 23.1% as at 30 June 2011 (31 December 2010: 1.7%). If the Convertible Bonds (liability component) amounted to HK\$80.6 million were to be excluded, the underlying gearing ratio was 1.0% only. The increase in the gearing ratio was due to the issue to Mr. Sin Kwok Lam (Chairman and Non-executive Director) ("Mr. Sin") of the convertible bonds in the principal amount of HK\$121.5 million (the "Convertible Bonds") as part of consideration to acquire HRL, EPL and their Xiqiao Mountain Dream Park Project. The total amount of the liability component of the Convertible Bonds is estimated to be HK\$80.6 million. The Convertible Bonds bears 1% interest per annum; the principal amount of HK\$121.5 million was separated into: (i) CB1 – HK\$71.5 million has a maturity date of 28 February 2014, and (ii) CB2 – HK\$50.0 million has a maturity date of 28 February 2017; and both are convertible into shares of the Company at the initial conversion price of HK\$1.1 per share (subject to adjustment according to the terms of the convertible bonds). As the conversion price of the Convertible Bonds is still below the current market price of the Company's share, it is likely that the convertible bonds will be converted into shares of the Company by the bondholder in the future and thus relieving the obligations of the Company to repay the convertible bonds.

Pursuant to the sale and purchase agreement entered with Mr. Sin as the vendor on 18 November 2010 for the Company's purchase of 51 shares, representing 51% of all the issued shares in the capital, of each of HRL and EPL at a consideration of HK\$300 million payable as to HK\$30.0 million by cash, as to HK\$148.5 million by issue of 135 million new shares and as to HK\$121.5 million by issue of the convertible bonds. The Company had an issue of 135 million shares at an issue price of HK\$1.1 each to Mr. Sin on 1 March 2011 as the part of the settlement.

Liquidity and Financial Resources

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Current assets	133,371	205,444
Current liabilities	18,749	13,092
Current ratio	711.3%	1,569.2%

Current ratio as at 30 June 2011 was 711.3% (31 December 2010: 1,569.2%). As at 30 June 2011, the Group's total cash and cash equivalents amounted to approximately HK\$71.5 million (31 December 2010: HK\$160.8 million).

Foreign Currency Exposure

The Group's reporting currency is in Hong Kong dollars. During the reporting period for the six months ended 30 June 2011, most of the transactions, assets and liabilities of the Group were denominated in Hong Kong dollars and Renminbi. During the period under review, since the Group had both Hong Kong dollars and Renminbi receipts and payments, the net Renminbi exposure was not significant. The Board considers that the Group's exposure to foreign exchange risk was not significant; therefore, no hedging transaction was made during the period under review.



Contingent Liabilities

As at 30 June 2011, the Group did not have any significant contingent liabilities.

Material Acquisitions and Disposals

Save for the acquisition of HRL and EPL in March 2011 and the disposal of the network infrastructure and electrical installation services businesses, the Group did not acquire or dispose of any material subsidiaries and affiliated companies during the period under review.

Significant investments

Save for the acquisition of HRL, EPL and their Xiqiao Mountain Dream Park Project, during the six months ended 30 June 2011, the Group did not acquire or hold any significant investment.

Commitments

Details of the Group's commitments are set out in note 18 from page 22 to page 23.

Pledge of Assets

Details of the Group's pledge of assets are set out in note 19 on page 23.

HUMAN RESOURCES & REMUNERATION POLICY

The Group had about 35 employees as at 30 June 2011. The Board believes 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.

OUTLOOK

Xiqiao Mountain Dream Park Project

With a combination of entertainment, tourism, leisure, cultural and religious aspects, this project will form a comprehensive tourist attraction. In line with the policy of the Chinese Government and the favorable movie and tourism industries, the projects will open up numerous business opportunities of the Chinese market to the Group. Starting from this year, the project will be completed phase by phase. It is expected that the project starts to bring financial contribution to the Group in this year and in the next few financial years.

Films production, distribution and artiste management

The Group invested in a major production, “The Woman Knight of Mirror Lake – Qiu Jin”, and the filming was completed last year. As the stage of post production just finished, the film is preliminarily scheduled to be screened this year. Another film, whose scale is to be more substantial, is preliminarily scheduled to start filming in next year. With regard to the artiste management, in addition to the movies produced by the Group, Mr. To Yu Hang and Miss Rose Chan, our artistes, secured roles in different upcoming movies, TV drama, spokesperson and advertising, which would bring positive impact to the Group. Thus, turnover derived from these businesses is expected to surge substantially this year.

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”).



Pursuant to a resolution passed by the extraordinary general meeting of the Company dated 29 September 2010, a New Share Option Scheme was adopted and the existing Post-IPO Share Option Scheme was terminated. The principal terms of New Share Option Scheme are set out in the circular of the Company dated 6 September 2010.

Pre-IPO Share Option Scheme

As at 30 June 2011, the share options to subscribe for an aggregate of 196,507 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 2011 are set out as follows:

Category of participants	Exercise price per share (HK\$)	Number of share options			Outstanding as at 30 June 2011
		As at 1 January 2011	Exercised during the period	Lapsed during the period	
Advisors and consultants	3.06	196,507	-	-	196,507

Post-IPO Share Option Scheme

As at 30 June 2011, the share options to subscribe for an aggregate of 77,650,000 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 2011 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 2011
			As at 1 January 2011	Granted during the period	Exercised during the period	Lapsed during the period	
Directors	3.53	10 November 2006	883,841	-	-	883,841	-
Directors	0.61	13 May 2010	2,100,000	-	400,000	-	1,700,000
Directors	0.564	20 May 2010	650,000	-	-	100,000	550,000
Directors	0.48	29 September 2010	75,250,000	-	-	-	75,250,000
Employees	0.48	29 September 2010	150,000	-	-	-	150,000
Total			79,033,841	-	400,000	983,841	77,650,000

New Share Option Scheme

As at 30 June 2011, the share options to subscribe for an aggregate of 68,500,000 shares of the Company granted pursuant to the New Share Option Scheme were outstanding. The details of the New Share Option Scheme as at 30 June 2011 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 2011
			As at 1 January 2011	Granted during the period	Exercised during the period	Lapsed during the period	
Directors (Note)	1.28	28 March 2011	-	51,200,000	-	-	51,200,000
Directors	1.28	28 March 2011	-	9,000,000	-	-	9,000,000
Employees	1.28	28 March 2011	-	8,300,000	-	-	8,300,000
Total			-	68,500,000	-	-	68,500,000

Note: 51,200,000 share options granted on 28 March 2011 with the approval of the shareholder at EGM held on 5 May 2011.



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

As at 30 June 2011, 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	Capacity/ Nature of interest	Number of shares	Interest in controlled corporation	Approximate percentage of the issued share capital of the Company	
				Total	
(a) The Company (Ordinary shares of HK\$0.01 each)					
Mr. Sin Kwok Lam (Note 1)	Beneficial owner	187,703,000	-	187,703,000	23.43%
	Interest of spouse	6,672,000	-	6,672,000	0.83%
Miss Law Po Yee (Note 1)	Beneficial owner	6,672,000	-	6,672,000	0.83%
	Interest of spouse	187,703,000	-	187,703,000	23.43%
(b) Head Return Limited (Ordinary shares of HK\$1.00 each)					
Mr. Sin Kwok Lam	Beneficial owner	49	-	49	49%
Miss Law Po Yee (Note 2)	Interest of spouse	49	-	49	49%
(c) Expand Pacific Limited (Ordinary shares of HK\$1.00)					
Mr. Sin Kwok Lam	Beneficial owner	49	-	49	49%
Miss Law Po Yee (Note 2)	Interest of spouse	49	-	49	49%

Note 1: Mr. Sin and Miss Law beneficially owned 194,375,000 Shares, representing approximately 24.26% 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.

Note 2: Miss Law is the spouse of Mr. Sin and is deemed to be interested in the Shares in which 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

Name of Directors	Date of grant	Exercise price per share (HK\$)	Exercisable period	Number of share options				Outstanding as at 30 June 2011
				As at 1 January 2011	Granted during the period	Exercised during the period	Lapsed during the period	
Mr. Sin Kwok Lam	29 September 2010	0.48	3 September 2010 to 2 September 2020	48,000,000	-	-	-	48,000,000
Miss Law Po Yee	29 September 2010	0.48	3 September 2010 to 2 September 2020	24,000,000	-	-	-	24,000,000
Mr. Lam Kwok Hing Wilfred	29 September 2010	0.48	3 September 2010 to 2 September 2020	3,250,000	-	-	-	3,250,000
Mr. Lam Kwok Hing Wilfred	13 May 2010	0.61	13 May 2010 to 12 May 2020	1,500,000	-	-	-	1,500,000
Mr. Chow Kai Weng	29 September 2010	0.48	3 September 2010 to 2 September 2020	150,000	-	-	-	150,000
Mr. Li Sin Hung Maxim	20 May 2010	0.564	20 May 2010 to 19 May 2020	150,000	-	-	-	150,000
Mr. Chui Chi Yun, Robert	13 May 2010	0.61	13 May 2010 to 12 May 2020	200,000	-	-	-	200,000
Mr. Chan Tin Lup, Trevor	20 May 2010	0.564	20 May 2010 to 19 May 2020	200,000	-	-	-	200,000
Dr. Wong Lung Tak, Patrick	20 May 2010	0.564	20 May 2010 to 19 May 2020	200,000	-	-	-	200,000
Mr. Tang Yat Ming Edward [#]	13 May 2010	0.61	13 May 2010 to 12 May 2020	400,000	-	400,000	-	-
Mr. Poon Shu Yan Joseph [†]	20 May 2010	0.564	20 May 2010 to 19 May 2020	100,000	-	-	100,000	-
Mr. Poon Shu Yan Joseph [†]	10 November 2006	3.53	10 November 2006 to 9 November 2016	883,841	-	-	883,841	-

[#] resigned on 15 November 2010

^{##} resigned on 1 June 2011



ii. New Share Option Scheme

Name of Directors	Date of grant	Exercise price per share (HK\$)	Exercisable period	Number of share options				Outstanding as at 30 June 2011
				As at 1 January 2011	Granted during the period	Exercised during the period	Lapsed during the period	
Mr. Sin Kwok Lam	28 March 2011	1.28	28 March 2012 to 27 March 2021	-	20,000,000	-	-	20,000,000
Miss Law Po Yee	28 March 2011	1.28	28 March 2012 to 27 March 2021	-	20,000,000	-	-	20,000,000
Mr. Lam Kwok Hing Wilfred	28 March 2011	1.28	28 March 2012 to 27 March 2021	-	11,200,000	-	-	11,200,000
Mr. Chow Kai Weng	28 March 2011	1.28	28 March 2012 to 27 March 2021	-	350,000	-	-	350,000
Miss Sin Ho Yee	28 March 2011	1.28	28 March 2012 to 27 March 2021	-	8,000,000	-	-	8,000,000
Mr. Li Sin Hung Maxim	28 March 2011	1.28	28 March 2012 to 27 March 2021	-	50,000	-	-	50,000
Mr. Chui Chi Yun, Robert	28 March 2011	1.28	28 March 2012 to 27 March 2021	-	200,000	-	-	200,000
Mr. Chan Tin Lup, Trevor	28 March 2011	1.28	28 March 2012 to 27 March 2021	-	200,000	-	-	200,000
Dr. Wong Lung Tak, Patrick	28 March 2011	1.28	28 March 2012 to 27 March 2021	-	200,000	-	-	200,000

3. Long positions in the underlying shares of the convertible bonds of the Company

Name of director	Capacity/ Nature of interest	Description of equity derivatives	Number of the underlying shares	Approximate percentage of the total issued share capital (%)
Mr. Sin Kwok Lam	Beneficial owner	Convertible Bonds (Note)	110,454,545	13.79%
Miss Law Po Yee	Interest of spouse	Convertible Bonds (Note)	110,454,545	13.79%

Note: The Convertible Bonds with an outstanding principal amount of HK\$121.5 million as at 30 June 2011, were issued by the Company to Mr. Sin on 1 March 2011 following the completion of the agreement entered between the Company and Mr. Sin, in connection with the acquisition of 51 shares, representing 51% of all the issued shares in the capital, of each of HRL and EPL. The Convertible Bonds bears 1% interest per annum; the principal amount of HK\$121.5 million was separated into: (i) CB1 – HK\$71.5 million has a maturity date of 28 February 2014, and (ii) CB2 – HK\$50.0 million has a maturity date of 28 February 2017; and are convertible into shares of the Company at the initial conversion price of HK\$1.1 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, none of the Directors, chief executive or their associates had, as at 30 June 2011, 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.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As at 30 June 2011, the persons or corporations, other than a director or chief executive of the Company, 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

Name of shareholders	Capacity	No. of shares held	Approximate percentage of the issued share capital of the Company
Tse Young Lai	Beneficial owner	145,765,333	18.20%

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 2011.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices and procedures with an aim to maximising 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 Bye-laws to retire by rotation once every three years. However, according to Bye-laws 84 of the Bye-laws, 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. The Board will ensure the retirement of each Director, by rotation at least once every three years in order to comply with the Code provisions and the Bye-laws.

The Company has prepared a corporate governance report in accordance with Rule 18.44(2) of the GEM Listing Rules attached to the 2010 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.

DISCLOSURE OF DIRECTORS' INFORMATION UNDER RULE 17.50A(1) OF THE GEM LISTING RULES

The following is the change of director's information during the period under review, which is required to be disclosed pursuant to Rule 17.50A(1) of the GEM Listing Rules:

Dr. Wong Lung Tak, Patrick, an Independent Non-executive Director of the Company, was appointed as an independent non-executive director of Winox Holdings Limited, a company listed in Hong Kong, with effect from 24 June 2011.



Mr. Lam Kwok Hing, Wilfred, Vice Chairman and a Non-executive Director of the Company, was a Senior Associate of Philip KH Wong, Kennedy YH Wong & Co., Solicitors & Notaries; and his position ceased with effective from 8 July 2011.

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

During the six months ended 30 June 2011, 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 Luk Tak, Patrick.

The Group's unaudited results for the six months ended 30 June 2011 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.

By Order of the Board

National Arts Holdings Limited

Law Po Yee

Vice Chairperson and Chief Executive Officer

Hong Kong, 10 August 2011



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

Chairman and Non-executive Director

Mr. Sin Kwok Lam

Vice Chairperson and Executive Director

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. Chui Chi Yun, Robert

Dr. Wong Lung Tak, Patrick