



National Arts

National Arts Holdings Limited

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

(Stock Code : 8228)



THIRD
QUARTERLY
REPORT
2011

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 three and nine months ended 30 September 2011, together with the comparative figures for the corresponding period in 2010 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Note	Three months ended 1 July to 30 September		Nine months ended 1 January to 30 September	
		2011 HK\$'000	2010 HK\$'000 (Restated)	2011 HK\$'000	2010 HK\$'000 (Reclassified)
CONTINUING OPERATIONS					
Turnover	2	1,262	4,540	4,747	5,811
Other operating income		226	-	490	-
Direct operating and subcontracting costs		(439)	(120)	(961)	(140)
Cost of film production	3	-	(10,836)	(2,116)	(11,958)
Staff costs	4	(4,992)	(2,904)	(11,482)	(4,807)
Depreciation of property, plant and equipment	5	(2,724)	(405)	(6,559)	(541)
Other operating expenses	6	(2,401)	(1,888)	(9,599)	(4,638)
Finance cost		2,275	(13)	(747)	(370)
Gain on disposal of subsidiaries	7	-	-	5,677	-
Loss before taxation		(6,793)	(11,626)	(20,550)	(16,643)
Taxation	8	-	-	-	-
Loss for the period from continuing operations		(6,793)	(11,626)	(20,550)	(16,643)
DISCONTINUED OPERATIONS					
Loss for the period from discontinued operations		-	(34)	(31)	(228)
Loss for the period		(6,793)	(11,660)	(20,581)	(16,871)
Other comprehensive income:					
Fair value gains/(loss) on financial assets at fair value through profit or loss		(2,939)	246	(3,561)	265
Total comprehensive loss for the period, attributable to the owners of the company		(9,732)	(11,414)	(24,142)	(16,606)

	Note	Three months ended		Nine months ended	
		1 July to 30 September		1 January to 30 September	
		2011	2010	2011	2010
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Restated)		(Reclassified)
<hr/>					
Total comprehensive loss					
attributable to:					
Owners of the Company		(4,673)	(11,414)	(18,461)	(16,606)
Non-controlling interests		(5,059)	-	(5,681)	-
		(9,732)	(11,414)	(24,142)	(16,606)
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Loss per share attributable to					
owners of the company					
Basic: - From continuing					
operations	9	HK\$(0.58) cents	HK\$(4.00) cents	HK\$(2.31) cents	HK\$(5.75) cents
Basic: - From discontinued					
operations	9	HK\$(0.00) cents	HK\$(0.01) cents	HK\$(0.01) cents	HK\$(0.08) cents
<hr/>					
Diluted: - From continuing					
operations	9	N/A	N/A	N/A	N/A
Diluted: - From discontinued					
operations	9	N/A	N/A	N/A	N/A
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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 nine months ended 30 September 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 artistes 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) 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.
- (e) Dividend income from investments is recognised when the right to receive payment is established.
- (f) Advertising income is recognised when the advertisements are published.
- (g) Tickets income are recognised when the tickets are sold to customers.

3. COST OF FILM PRODUCTION

Cost of film production for the period under review posted to HK\$2,116,000 due to film products for the movie namely “The Legend is Born – Ip Man” received from overseas sales amounted to HK\$2,454,000.

4. STAFF COSTS

Staff costs representing the largest component of the Group’s operating expenses, rose to approximately HK\$11,482,000 comparing to HK\$4,807,000 in 2010. However, if the cost of granting share options to directors and staff amounted HK\$6,103,000 was excluded, actual staff costs would be approximately HK\$5,379,000. This was attributable to the growth of our operations. In addition to general basic payment, other benefits including mandatory provident fund contribution, medical insurance coverage and performance related bonus are also available to employees.

5. DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

During the period under review, depreciation amounted to approximately HK\$6,559,000, an increase of approximately 1,100% as compared with 2010. The increase of depreciation is mainly due to the amortisation of lease prepayment arising from the acquisition of 51% equity interests in Head Return Limited and Expand Pacific Limited.

6. OTHER OPERATING EXPENSES

Other operating expenses rose by approximately 106% to HK\$9,599,000, which was primarily attributable to the acquisition of 51% equity interests in Head Return Limited and Expand Pacific Limited. These expenses mainly include rental, entertainment, business development & marketing expenses, legal & professional fee.

7. 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.

8. TAXATION

Hong Kong Profits Tax has not been provided for the nine months ended 30 September 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 subsidiary incurred a loss for taxation purposes for the nine months ended 30 September 2011 (2010: Nil).

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

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

The calculation of basic loss per share from continuing operations for the nine months ended 30 September 2011 was based on the unaudited net loss for the period of approximately HK\$18,430,000 (2010: loss of HK\$16,378,000) and on the weighted average number of 797,368,931 shares (2010: 284,681,594 shares) deemed to be in issue throughout the periods.

The calculation of basic loss per share from discontinued operations for the nine months ended 30 September 2011 was based on the unaudited net loss for the period of approximately HK\$31,000 (2010: loss of HK\$228,000) and on the weighted average number of 797,368,931 shares (2010: 284,681,594 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 and convertible notes 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 nine months ended 30 September 2011 (2010: Nil).

11. 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	
As at 1 January 2010 (audited)	11,896	161,196	1,000	287	2,285	-	-	(166,215)	10,449	-	10,449
Share issued under share placements	35,689	71,378	-	-	-	-	-	-	107,067	-	107,067
Share expenses	-	(3,864)	-	-	-	-	-	-	-	-	(3,864)
Loss for the period	-	-	-	-	-	-	-	(16,606)	(16,606)	-	(16,606)
Employee share-based compensation	-	-	-	-	626	-	-	1,326	1,952	-	1,952
As at 30 September 2010 (unaudited)	47,585	228,710	1,000	287	2,911	-	-	(181,495)	98,998	-	98,998
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 expenses	-	(199)	-	-	-	-	-	-	(199)	-	(199)
Share issued upon exercise of share options	5	239	-	-	(78)	-	-	78	244	-	244
Acquisition of shares held by minority shareholders	-	-	-	-	-	-	-	-	-	170,238	170,238
Recognition of equity component of convertible bonds	-	-	-	-	-	-	58,139	-	58,139	-	58,139
Currency translation differences	-	-	-	988	-	-	-	-	-	-	988
Loss for the period	-	-	-	-	-	-	-	(18,461)	(18,461)	(5,681)	(24,142)
Transfer of lapsed options to accumulated losses	-	-	-	-	(981)	-	-	981	-	-	-
Employee share-based compensation	-	-	-	-	6,103	-	-	-	6,103	-	6,103
Transfer to accumulated losses upon disposal of subsidiaries	-	-	-	(287)	-	-	-	287	-	-	-
As at 30 September 2011 (unaudited)	8,013	126,862	1,000	1,009	14,499	78,791	58,139	(17,115)	271,198	164,557	435,755

FINANCIAL REVIEW

For the nine months ended 30 September 2011, the Group recorded total turnover of approximately HK\$4,747,000, representing a drop of approximately 18.3% over the corresponding period in 2010. The turnover for the period under review was attributable to the film and artiste management businesses.

Cost of film production for the period under review increased to approximately HK\$2,116,000 due to film products being amortised for the movie namely “The Legend is Born – Ip Man”.

Staff costs for the period under review increased to approximately HK\$11,482,000 from as compared to the corresponding period approximately HK\$4,807,000 in the previous year. The increase in staff costs was mainly due to more headcounts for new development projects and film and artiste management businesses during the period under review. Also, the company issued the share options to the directors and some employees, the cost of employee share-based payment was about HK\$6,103,000.

Depreciation recorded an increase by HK\$6,018,000 because of the amortisation of lease prepayment approximately HK\$5,120,000 arising from the acquisition of 51% equity interests in Head Return Limited and Expand Pacific Limited.

For the period under review, finance costs decreased approximately HK\$2,275,000 due to financial charges from the issuance of convertible bonds as the consideration for acquisition of Head Return Limited and Expand Pacific Limited which have been transferred to convertible bonds reserve.

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

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.

After the acquisition of Head Return Limited and Expand Pacific Limited, the Group has devoted resources in developing a number of projects in Foshan, including:

1. A film shooting base with various shooting scene
2. A theme park
3. A five-star hotel
4. A deluxe hotel
5. A performance stadium
6. A “Wong Tai Sin Temple” and “Ti Tsang Wang Temple”

With a combination of entertainment, tourism, leisure, cultural and religious aspects, these projects will form a comprehensive tourist attraction. In line with the policy of the Chinese Government and the favourable movie and tourism industries, the projects will open up numerous business opportunities of the Chinese market to the Group. Starting from 2011, the projects will be completed phase by phase. The project of “Wong Tai Sin Temple” and “Ti Tsang Wang Temple” has been completed in July 2011, and brought lots of followers to make a formal visit. Also, the Group will organise “Thousand People Banquet” and “Christmas Carnival” to increase the popularity of Xiqiao Mountain Dream Park. It is expected that the projects may start to bring financial contribution to the Group in 2011 and in the next few financial years.

With regard to the artiste management, in addition to the movies produced by the Group, Mr. To Yu Hang and Miss Rose Chan, our upcoming artistes, secured roles in different upcoming movies, TV drama, spokesman and advertising, which would bring positive impact to the Group. With a number of jobs under negotiations, the Company expects further positive contribution from the artiste management and therefore may further expand this segment.

In view of rapid growth of film sector, the management has full confidence on film production. The management plans to produce a new movie, “Ip Man – The Final Chapter”.

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 September 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 lapsed. 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 September 2011 are set out as follows:

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

Post-IPO Share Option Scheme

As at 30 September 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 September 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 September 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 September 2011, the share options to subscribe for an aggregate of 60,500,000 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 September 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 September 2011
			As at 1 January 2011	Granted during the period	Exercised during the period	Lapsed during the period	
Directors	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	-	8,000,000	300,000
Total			-	68,500,000	-	8,000,000	60,500,000

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

As at 30 September 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	Total	Approximate percentage of the issued share capital of the Company
(a) The Company (Ordinary shares of HK\$0.01 each)					
Mr. Sin Kwok Lam (Note 1)	Beneficial owner	190,083,000	-	190,083,000	23.72%
	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	190,083,000	-	190,083,000	23.72%
(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 each)					
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 196,755,000 Shares, representing approximately 24.55% 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

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

Details of grantees	Date of grant	Exercise Price per share (HK\$)	Exercisable period	Number of share options				Outstanding as at 30 September 2011
				As at 1 January 2011	Granted during the period	Exercised during the period	Lapsed during the period	
Mr. Sin Kwok Lam (Director)	28 March 2011	1.28	28 March 2012 to 27 March 2021	-	20,000,000	-	-	20,000,000
Miss Law Po Yee (Director)	28 March 2011	1.28	28 March 2012 to 27 March 2021	-	20,000,000	-	-	20,000,000
Mr. Lam Kwok Hing Wilfred (Director)	28 March 2011	1.28	28 March 2012 to 27 March 2021	-	11,200,000	-	-	11,200,000
Mr. Chow Kai Weng (Director)	28 March 2011	1.28	28 March 2012 to 27 March 2021	-	350,000	-	-	350,000
Miss Sin Ho Yee (Director)	28 March 2011	1.28	28 March 2012 to 27 March 2021	-	8,000,000	-	-	8,000,000
Mr. Li Sin Hung Maxim (Director)	28 March 2011	1.28	28 March 2012 to 27 March 2021	-	50,000	-	-	50,000
Mr. Chui Chi Yun, Robert (Director)	28 March 2011	1.28	28 March 2012 to 27 March 2021	-	200,000	-	-	200,000
Dr. Wong Lung Tak, Patrick (Director)	28 March 2011	1.28	28 March 2012 to 27 March 2021	-	200,000	-	-	200,000
Mr. Chan Tin Lup, Trevor (Director)	28 March 2011	1.28	28 March 2012 to 27 March 2021	-	200,000	-	-	200,000
Employees	28 March 2011	1.28	28 March 2012 to 27 March 2021	-	8,300,000	-	8,000,000	300,000

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

Name of Directors	Capacity/ Nature of interest	Description of equity derivatives	Approximate percentage of the issued share capital	
			Total	
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 September 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 September 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 September 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 shareholder	Capacity	Number of shares held	Approximate percentage of the issued share capital of the Company
Tse Young Lai	Beneficial owner	154,965,333	19.34%

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 nine months ended 30 September 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.

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

During the nine months ended 30 September 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 Lung Tak, Patrick.

The Group's unaudited results for the nine months ended 30 September 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.

On behalf of the Board
National Arts Holdings Limited
Law Po Yee
Vice Chairperson and Chief Executive Officer

Hong Kong, 8 November 2011

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

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