



National Arts

National Arts Entertainment and Culture Group Limited

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

(Stock Code : 8228)



Interim Report 2013

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This report, for which the directors of National Arts Entertainment and Culture Group Limited (formerly known as “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 GEM of the Exchange 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 or deceptive; and (2) there are no other matters the omission of which would make any statement herein or this report misleading.

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The board of directors (the “Board”) of National Arts Entertainment and Culture Group Limited (formerly known as “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 2013, together with the comparative figures for the corresponding period in 2012 as follows:

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Three months ended 30 June		Six months ended 30 June	
		2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Revenue/Turnover	2	1,218	1,424	2,993	3,110
Other operating income	2	2,963	1,662	4,653	31,466
Cost of film production		–	(236)	(110)	(236)
Staff costs		(3,146)	(2,723)	(6,497)	(10,900)
Depreciation of property, plant and equipment		(483)	(513)	(873)	(1,039)
Amortisation of land lease prepayments		(561)	(561)	(1,122)	(1,135)
Other operating expenses		(4,129)	(4,031)	(8,573)	(7,126)
Finance costs	4	(3,404)	(3,316)	(4,280)	(6,490)
Change in fair value of financial assets at fair value through profit or loss		–	10	–	1,892
(Loss)/profit before income tax	5	(7,542)	(8,284)	(13,809)	9,542
Income tax expense	6	(161)	–	(320)	–
(Loss)/profit for the period		(7,703)	(8,284)	(14,129)	9,542

	Note	Three months ended 30 June		Six months ended 30 June	
		2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Other comprehensive income					
Exchange differences on translation of financial statements of foreign operations		(893)	(714)	373	(68)
Other comprehensive income for the period		(893)	(714)	373	(68)
Total comprehensive income for the period		(8,596)	(8,998)	(13,756)	9,474
(Loss)/profit for the period attributable to:					
Owners of the Company		(3,500)	(7,084)	(8,137)	(442)
Non-controlling interests		(4,203)	(1,200)	(5,992)	9,984
		(7,703)	(8,284)	(14,129)	9,542
Total comprehensive income for the period attributable to:					
Owners of the Company		(7,429)	(7,447)	(7,950)	(476)
Non-controlling interests		(1,167)	(1,551)	(5,806)	9,950
		(8,596)	(8,998)	(13,756)	9,474
Basic loss per share attributable to owners of the Company during the period	7	HK(0.09) cents	(Restated) HK(0.54) cents	HK(0.20) cents	(Restated) HK(0.03) cents
Diluted loss per share attributable to owners of the Company during the period	7	HK(0.09) cents	(Restated) HK(0.54) cents	HK(0.20) cents	(Restated) HK(0.03) cents

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2013 HK\$'000 (Unaudited)	31 December 2012 HK\$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	9	209,833	112,920
Investment properties	10	571,368	513,426
Land lease payments	11	83,630	84,752
Investment in joint venture		9,000	–
Other receivables		101,441	98,097
		975,272	809,195
Current assets			
Film products		20,801	–
Film production in progress		–	19,398
Trade receivables	12	1,057	1,162
Inventories		1,090	1,126
Prepayments, deposits and other receivables		19,952	19,343
Cash and cash equivalents		269,673	157,517
		312,573	198,546
Current liabilities			
Trade payables	13	42	79
Other payables and accruals		62,955	119,401
Amount due to a director	14	110,151	1,151
Loans from a related company	14	6,400	13,400
Borrowings		25,000	25,000
Finance lease obligation		1,966	1,961
Provision for income tax		3,271	2,951
		209,785	163,943
Net current assets		102,788	34,603
Total assets less current liabilities		1,078,060	843,798
Non-current liabilities			
Bonds	15	68,595	–
Convertible bonds	16	80,147	–
Finance lease obligation		16,600	15,652
Deferred tax liabilities		34,331	34,331
		199,673	49,983
Net assets		878,387	793,815
EQUITY			
Equity attributable to owners of the Company			
Share capital		40,562	40,562
Reserves		621,310	530,932
		661,872	571,494
Non-controlling interests		216,515	222,321
Total equity		878,387	793,815

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Equity attributable to the owners of the Company

	(Accumulated losses)/											Non-controlling interests	Total equity
	Share capital	Share premium	Special reserve	Capital reserve	Contributed surplus	Translation reserve	Share option reserve	Convertible bond equity reserve	Warrant reserves	Retained earnings	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2012 (Audited)	8,012	126,941	1,000	-	78,791	998	21,002	62,754	-	(10,142)	289,356	210,705	500,061
Shares issued upon exercise of bonus warrants	70	2,310	-	-	-	-	-	-	-	-	2,380	-	2,380
Employee share-based compensation	-	-	-	-	-	-	5,269	-	-	-	5,269	-	5,269
Transactions with owners	70	2,310	-	-	-	-	5,269	-	-	-	7,649	-	7,649
(Loss)/profit for the period	-	-	-	-	-	-	-	-	-	(442)	(442)	9,984	9,542
Other comprehensive income													
Exchange differences on translation of financial statements of foreign operations	-	-	-	-	-	(34)	-	-	-	-	(34)	(34)	(68)
Total comprehensive income for the period	-	-	-	-	-	(34)	-	-	-	(442)	(476)	9,950	9,474
At 30 June 2012 (Unaudited)	8,082	129,251	1,000	-	78,791	964	26,271	62,754	-	(10,584)	296,529	220,655	517,184
At 1 January 2013 (Audited)	40,562	412,074	1,000	-	78,791	1,777	26,229	-	-	11,061	571,494	222,321	793,815
Issue of convertible bonds	-	-	-	-	-	-	-	7,492	-	-	7,492	-	7,492
Issue of bonds	-	-	-	-	-	-	-	-	6,412	-	6,412	-	6,412
Capital contribution from a shareholder	-	-	-	84,424	-	-	-	-	-	-	84,424	-	84,424
Transactions with owners	-	-	-	84,424	-	-	-	7,492	6,412	-	98,328	-	98,328
Loss for the period	-	-	-	-	-	-	-	-	-	(8,137)	(8,137)	(5,992)	(14,129)
Other comprehensive income													
Exchange differences on translation of financial statements of foreign operations	-	-	-	-	-	187	-	-	-	-	187	186	373
Total comprehensive income for the period	-	-	-	-	-	187	-	-	-	(8,137)	(7,950)	(5,806)	(13,756)
At 30 June 2013 (Unaudited)	40,562	412,074	1,000	84,424	78,791	1,964	26,229	7,492	6,412	2,924	661,872	216,515	878,387

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Net cash (outflow)/inflow from operating activities	(72,284)	11,684
Net cash outflow from investing activities	(75,665)	(37,537)
Net cash inflow from financing activities	260,068	13,031
Increase/(decrease) in cash and cash equivalents	112,119	(12,822)
Cash and cash equivalents at the beginning of the period	157,517	21,327
Effect of foreign exchange rate changes	37	–
Cash and cash equivalents at the end of the period	269,673	8,505

NOTE ON THE UNAUDITED INTERIM REPORT

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 Company's principal place of business in Hong Kong at Unit B, 2/F Jone Mult Factory Building, 169 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong.

The Company's shares are listed on the GEM of the Exchange.

The unaudited financial statements of the Group have been prepared in accordance with the Hong Kong Financial Reporting Standards which collectively including all applicable individual Hong Kong Financial Reporting Standard, Hong Kong Accounting Standard ("HKAS"), including compliance with HKAS 34, *Interim financial reporting*, and Interpretation issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements set out in Chapter 18 of the Rules Governing the Listing of Securities on the of the GEM (the "GEM Listing Rules").

The unaudited consolidated results for the six months ended 30 June 2013 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 2012.

The unaudited financial statements are presented in Hong Kong Dollars ("HK\$"), which is also the functional currency of the company and all values are rounded to nearest thousand ("HK\$'000") unless otherwise stated.

2. REVENUE/TURNOVER AND OTHER OPERATING INCOME

The Company is principally engaged in investment holding. The principal activities of the Group include production and distribution of films, provision of management services to artistes, and operation of film studio and hotel.

Revenue/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) Management fee income and revenue from rendering of services are recognised when the agreed services are rendered.
- (d) Entrance fee income is recognised when the tickets are accepted and surrendered by customer.
- (e) Sale of goods is recognised when the significant risk and rewards of ownership have been transferred to the buyers.
- (f) Rental income under operating leases is recognised over the lease term. Contingent rentals are recognised in the accounting period which they are incurred.
- (g) Interest income is recognised on time-proportion basis using effective interest method.
- (h) Dividend income from investments is recognised when the right to receive payment is established.

3. SEGMENTS 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 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
Film studio operation	-	Operation of film studio
Hotel operation	-	Operation of hotel

Segment information about the Group's reportable segments is presented below.

Segment revenues and results

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

	Films production and distribution and artiste management	Film studio operation	Hotel operation	Inter- segment elimination	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Six months ended 30 June 2013					
(Unaudited)					
Revenue from external customers	1,073	1,867	53	-	2,993
Inter-segment revenue	-	10	148	(158)	-
Reportable segment revenue	1,073	1,877	201	(158)	2,993
Reportable segment loss	(479)	(3,600)	(4,423)	-	(8,502)
Other operating income					3,399
Gain on deregistration of subsidiaries					1,254
Unallocated corporate expenses					(6,634)
Finance costs					(3,326)
Loss before income tax					(13,809)

	Films production and distribution and artiste management	Film studio operation	Hotel operation	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Six months ended 30 June 2012 (Unaudited)				
Reportable segment revenue	1,453	1,657	–	3,110
Reportable segment profit/(loss)	587	24,036	(3,661)	20,962
Other operating income				200
Gain on disposal of property, plant and equipment				2,884
Change in fair value of financial assets at fair value through profit or loss				1,892
Unallocated corporate expenses				(10,893)
Finance costs				(5,503)
Profit before income tax				9,542

Revenue reported above represents revenue generated from external customers and inter-segment sales during the period (2012: no inter-segment sales).

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

Segment assets and liabilities

	Films production and distribution and artiste management HK\$'000	Film studio operation HK\$'000	Hotel operation HK\$'000	Total HK\$'000
At 30 June 2013 (Unaudited)				
Reportable segment assets	<u>38,861</u>	<u>689,090</u>	<u>282,509</u>	1,010,460
Property, plant and equipment				18,916
Cash and cash equivalents				257,678
Unallocated corporate assets				<u>791</u>
Consolidated assets				<u>1,287,845</u>
Reportable segment liabilities	<u>(5,270)</u>	<u>(110,947)</u>	<u>(73,902)</u>	(190,119)
Loans from a related company				(6,400)
Borrowings				(25,000)
Provision for income tax				(3,271)
Bonds				(68,595)
Convertible bonds				(80,147)
Deferred tax liabilities				(34,331)
Unallocated corporate liabilities				<u>(1,595)</u>
Consolidated liabilities				<u>(409,458)</u>
At 31 December 2012 (Audited)				
Reportable segment assets	<u>24,657</u>	<u>637,624</u>	<u>234,344</u>	896,625
Property, plant and equipment				7,472
Cash and cash equivalent				103,481
Unallocated corporate assets				<u>163</u>
Consolidated assets				<u>1,007,741</u>
Reportable segment liabilities	<u>(4,466)</u>	<u>(42,674)</u>	<u>(87,623)</u>	(134,763)
Loans from a related company				(13,400)
Borrowings				(25,000)
Provision for income tax				(2,951)
Deferred tax liabilities				(34,331)
Unallocated corporate liabilities				<u>(3,481)</u>
Consolidated liabilities				<u>(213,926)</u>

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.

Other segment information

	Films production and distribution and artiste management	Film studio operation	Hotel operation	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 30 June 2013 (Unaudited)				
Depreciation of property, plant and equipment	29	160	324	513
Amortisation of land lease prepayments	-	-	1,122	1,122
Additions to non-current assets	-	58,321	84,565	142,886
<hr/>				
At 30 June 2012 (Unaudited)				
Depreciation of property, plant and equipment	368	124	18	510
Amortisation of land lease prepayments	-	-	1,135	1,135
Additions to non-current assets	-	15,878	7,424	23,302
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Geographical information

All the Group's revenue and non-current assets are principally attributable to the PRC including Hong Kong (being the place of domicile of the major companies comprising the Group).

The geographical location of customers is based on the location at which the contracts are negotiated and entered with the customers. The total revenue from external customers is mainly sourced from the PRC.

4. FINANCE COSTS

	Three months ended 30 June		Six months ended 30 June	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Finance lease charges	468	480	938	987
Interest on bonds	1,208	–	1,208	–
Interest on convertible bonds	1,409	2,504	1,409	4,960
Interest on borrowings wholly repayable within five years	953	332	1,961	543
	4,308	3,316	5,516	6,490
Less: Amount capitalised on construction in progress	(634)	–	(1,236)	–
	3,404	3,316	4,280	6,490

The weighted average capitalisation rate of borrowings was 2.91% (2012: Nil) per annum for the period.

5. (LOSS)/PROFIT BEFORE INCOME TAX

	Three months ended 30 June		Six months ended 30 June	
	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
(Loss)/profit before income tax has been arrived at after charging/(crediting)				
Gain on disposals of property, plant and equipment	-	-	-	(2,884)
Gain on deregistration of subsidiaries	(1,254)	-	(1,254)	-
Construction management fee income	-	-	-	(26,834)
Costs of inventories recognised as expense	39	116	215	320
Minimum lease payments under operating leases in respect of rented premises	955	1,004	1,952	1,450
Staff costs, including directors' remuneration:				
Salaries and allowances	3,071	2,675	6,354	5,530
Equity settled share-based payment expenses	-	-	-	5,268
Retirement benefit costs	75	48	143	102
	3,146	2,723	6,497	10,900

6. INCOME TAX EXPENSE

Hong Kong profits tax has not been provided for the six months ended 30 June 2013 (2012: Nil) as the Group did not generate any assessable profits in Hong Kong during these periods.

The PRC foreign enterprise income tax has not been provided as the PRC subsidiaries incurred losses for taxation purposes for both periods. The PRC income tax charged during the period under review (2012: Nil) represented the tax levied on a Hong Kong subsidiary of the Group at 10% in respect of income derived from the source within the PRC.

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

The calculation of basic and diluted loss per share is based on the loss attributable to the owners of the Company of HK\$8,137,000 (2012: HK\$442,000) and the weighted average number of ordinary shares in issue during six months period which calculated as follows:

	Six months ended 30 June	
	2013 '000	2012 '000 (Restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of		
basic loss per share	4,056,271	1,295,047
Effect of dilutive potential ordinary shares:		
Share options	-	55,189
Warrants	-	92,873
		<hr/>
Weighted average number of ordinary shares for the purpose of		
diluted loss per share	4,056,271	1,443,109
		<hr/>

The calculation of basic loss per share is based on the loss attributable to the owners of the Company of HK\$8,137,000 (2012: HK\$442,000) and the weighted average of approximately 4,056,271,000 (2012: approximately 1,295,047,000 as restated to reflect the rights issue of the Company in December 2012) ordinary shares in issue during the period.

Diluted loss per share for the loss attributable to the owners of the Company for the period ended 30 June 2013 was the same as basic loss per share as the impact of the exercise of the share options, warrants and convertible bonds is anti-dilutive. The calculation of diluted earnings per share for the six months ended 30 June 2012 is based on the loss attributable to the owners of the Company of HK\$442,000 and the weighted average of approximately 1,443,109,000 (as restated to reflect the rights issue of the Company in December 2012) ordinary shares outstanding during the period.

8. DIVIDEND

The Board does not recommend payment of an interim dividend for the six months ended 30 June 2013 (2012: Nil).

9. PROPERTY, PLANT AND EQUIPMENT

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

	30 June 2013 HK\$'000 (Unaudited)	31 December 2012 HK\$'000 (Audited)
Net book value, at 1 January	112,920	59,446
Additions:		
Property under construction	83,916	111,085
Other property, plant and equipment	2,052	2,979
Acquisition of subsidiary	11,779	–
Disposals	–	(58,722)
Depreciation	(873)	(1,915)
Exchange realignment	39	47
	<hr/>	<hr/>
Closing net book value	209,833	112,920

10. INVESTMENT PROPERTIES

The movements of investment properties of the Group were:

	30 June 2013 HK\$'000 (Unaudited)	31 December 2012 HK\$'000 (Audited)
At 1 January	513,426	440,775
Additions	57,942	64,701
Change in fair value	–	7,950
	<hr/>	<hr/>
Closing net book value	571,368	513,426

The Board is of the opinion that, had investment properties been carried at their fair value, the amounts, together with the prepaid land lease payments portion, would not be less than the stated carrying amount as at 30 June 2013. The Board intends that those properties are held in the view as to earn rentals and/or for capital appreciation.

11. LAND LEASE PREPAYMENTS

The movements of land lease prepayments of the Group were:

	30 June 2013 HK\$'000 (Unaudited)	31 December 2012 HK\$'000 (Audited)
Net book value, at 1 January	84,752	92,759
Amortisation	(1,122)	(2,257)
Disposal	–	(5,750)
	<hr/>	<hr/>
Closing net book value	83,630	84,752

The land lease prepayments represented the premium recognised when acquiring the land interests in the PRC by operating lease arrangement with the local authority.

12. TRADE RECEIVABLES

The Group generally allows a credit period from 30 to 90 days to its trade customers. The ageing analysis of trade receivables, net allowance for bad and doubtful debts as follows:

	30 June 2013 HK\$'000 (Unaudited)	31 December 2012 HK\$'000 (Audited)
0 to 60 days	345	804
61 to 90 days	90	100
91 to 180 days	614	250
Over 180 days	8	8
	<hr/>	<hr/>
	1,057	1,162

Included in the balances are debtors with carrying amounts of HK\$622,000 (31 December 2012: HK\$258,000) 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. TRADE PAYABLES

The Group has granted by its suppliers' credit periods from 30 to 60 days. The ageing analysis of trade payables is stated as follow:

	30 June 2013 HK\$'000 (Unaudited)	31 December 2012 HK\$'000 (Audited)
0 to 30 days	–	12
31 to 60 days	–	17
61 to 90 days	–	1
91 to 180 days	13	20
Over 180 days	29	29
	<hr/> 42	<hr/> 79

14. AMOUNT DUE TO A DIRECTOR/LOANS FROM A RELATED COMPANY

Amount due to a director was unsecured, interest-free and repayable on demand.

Loans from a related company represented short-term interest bearing loans granted to National Arts Entertainment Limited ("NA Entertainment") by First Credit Limited, of which Mr. Sin Kwok Lam ("Mr. Sin"), a non-executive director of the Company, has significant influence. The loan as at 30 June 2013 is interest-bearing at 12% per annum, repayable within one year and is secured by a corporate guarantee granted by the Company.

15. BONDS

On 23 May 2013, the Company issued bonds with principal amount of HK\$78,775,000 for a consideration of HK\$78,775,000. 78,775,000 unlisted warrants were issued, for no additional payment, by the Company to the first registered holders of the bonds on the basis of one warrant for every HK\$1.00 in the principal amount of the bonds taken up.

The principal terms of the bonds and the unlisted warrants were as follows:

	Bonds
Principal amount	HK\$78,775,000
Maturity date	23 May 2015
Coupon rate	7.5% per annum
	Unlisted warrants
Amounts of warrants to be issued	HK\$78,775,000
Subscription period	23 May 2013 to 23 May 2015
Conversion price	HK\$0.115 per share

Exercise in full of the outstanding warrants would result in the issue of 685,000,000 additional shares with an aggregate subscription amount of HK\$78,775,000.

The carrying amount of the bonds was denominated in HK\$.

The initial recognition of the bonds are set out as below:

	30 June 2013 HK\$'000 (Unaudited)
Nominal value at date of issue	78,775
Equity component	(6,412)
Transaction cost paid	<u>(4,976)</u>
Carrying amount at date of issue	67,387
Interest recognised during the period (note 4)	<u>1,208</u>
	<u>68,595</u>

At initial recognition, the fair values of the liability component of the bonds were calculated using cash flows discounted at a rate based on the estimated discount rate of 12.68%. The fair values of the equity component of the bonds were estimated using Binomial Model. The fair values of the bonds were determined by an independent firm of professional valuers.

Interest expense on the bonds is calculated using the effective interest method by applying effective interest rate of 14.73% to the liability component.

16. CONVERTIBLE BONDS

On 23 May 2013, the Company issued convertible bonds with principal amount of HK\$92,000,000. The principal terms of the convertible bonds were as follows:

Principal amount	HK\$92,000,000
Maturity date	23 May 2015
Coupon rate	7.5% per annum
Subscription period	23 May 2013 to 23 May 2015
Conversion price	HK\$0.115 per share

The convertible bonds would be redeemed by the Company at its principal amount together with accrued interest on the maturity dates. The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity. The liability component is subsequently measured at amortised cost.

The carrying amount of the convertible bonds was denominated in HK\$.

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

	30 June 2013	31 December 2012
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Nominal value at issue date	92,000	140,321
Equity components	(7,492)	(62,754)
Transaction cost paid	(5,770)	–
	<hr/>	<hr/>
Fair value of liability components in initial recognition	78,738	77,567
Interest expense in previous years	–	7,720
	<hr/>	<hr/>
At issue date/ 1 January	78,738	85,287
Interest recognised for the period (note 4)	1,409	9,924
Interest paid for the period	–	(2,197)
Early redemption during the period	–	(93,014)
	<hr/>	<hr/>
	80,147	–
	<hr/>	<hr/>

At initial recognition, the fair values of the liability component of the convertible bonds were calculated using cash flows discounted at a rate based on the estimated discount rate of 12.68%. The fair values of the equity component of the convertible bonds were estimated using Binomial Model. The fair values of the convertible bonds were determined by an independent firm of professional valuers.

Interest expense on the convertible bonds is calculated using the effective interest method by applying effective interest rate of 14.71% to the liability component.

During the year ended 31 December 2012, the Company has early redeemed the convertible bonds issued on 28 February 2011 by cash at HK\$121,500,000 on 20 December 2012. A gain on redemption of convertible bonds of approximately HK\$224,000 which represented the difference between the redemption price allocated to liability components amounted to approximately HK\$92,790,000 and the total carrying amounts of the liability components of both convertible bonds amounted to approximately HK\$93,014,000 has been credited to the consolidated statement of comprehensive income for the year ended 31 December 2012. Upon the early redemption of both convertible bonds, the difference of approximately HK\$34,044,000 between the carrying amounts of equity components included in convertible bonds equity reserve of approximately HK\$62,754,000 and the redemption price allocated to equity components amounted to approximately HK\$28,710,000 was released to accumulated losses/retained earnings.

17. COMMITMENTS

(a) Commitments under operating lease

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

	30 June 2013 HK\$'000 (Unaudited)	31 December 2012 HK\$'000 (Audited)
Not later than one year	3,430	3,711
In the second to fifth year inclusive	13,227	14,169
Over five years	106,562	111,128
	123,219	129,008

(b) Capital commitments

The Group had the following capital commitments:

	30 June 2013 HK\$'000 (Unaudited)	31 December 2012 HK\$'000 (Audited)
Contracted but not provided for:		
Construction of properties (note (a))	136,186	107,001
Formation of a jointly-controlled entity (note (b))	2,400	11,400
	138,586	118,401
Authorised but not constructed for:		
Construction of properties (note (a))	-	17,037

Notes:

- (a) Capital commitment for construction in properties related to capital commitment for construction of film studio and hotel in Foshan, the PRC. The authorised amount was approved by the directors of the Company according to the land lease agreements signed between the Group and the local authority in Foshan, the PRC, in relation to the leasing of lands for development of tourism and related entertainment business and hotel operations.
- (b) On 17 December 2012, one of the subsidiaries of the Company, National Arts Films Production Limited ("NA Films"), entered into a joint venture agreement (the "JV agreement") with an independent third party to establish a jointly controlled entity (the "JCE") for the development of cinema business. According to the JV agreement, the total registered capital of the JCE to be injected will be HK\$19,000,000 in which 60% will be held by NA Films. During 2013, NA Films has injected HK\$9,000,000 to the JCE and the remaining HK\$2,400,000 is thus shown as capital commitment of the Group as at 30 June 2013.

18. RELATED PARTY TRANSACTION

During the period of the six months ended 30 June 2013, the Group paid interest of HK\$600,000 (2012: HK\$530,000) to a related company.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Xiqiao National Arts Film Studio Project

Located in Foshan City, Guangdong province, the Group's Xiqiao National Arts Film Studio (formerly known as "Xiqiao Mountain Dream Work") project has a total of developed land area of 444,000 square metres. Drawing on the experience of world class studios, it is a unique studio which embodies world-wide success elements such as leisure resort hotels and film shooting base and incorporates tourism and recreational facilities such as film shooting area and hotels.

- ***Film Shooting Base***

The film shooting base is the core project of the Xiqiao National Arts Film Studio project and it will equip with the most excellent and comprehensive ancillary facilities featuring most realistic and delicate details in South China. The film shooting base covers 374,000 square metres, including a lake of 120,000 square metres. Its Hong Kong Scene Area, covering an area of 33,350 square metres and reproducing Hong Kong's scene in the 1930s to 1960s, was completed and put into operation in August 2012. "Ip Man – The Final Fight", a blockbuster film invested by the Group, was the first film shot in Hong Kong Scene Area.

The studio is partly opened to selected production crews including crews from Television Broadcasts Limited. Certain areas in the studio were made open to public for holding holiday parties during the Halloween, the Christmas and the New Year. It received warm response as evident by around 10,000 visitors in only ten days during these three holidays. Themed parties in the studio may be held in the future on a regular basis in order to promote the Xiqiao National Arts Film Studio.

All other shooting scenic spots will be completed in this year or next year, including Shanghai Scene Area, Canton Scene Area, Ancient Mansions and Ming-Qing Dynasty Palace which are half completed and expected to be completed in the second half of 2013, Imperial Garden, Water Towns in Southern Yangtze River and Qing-Ming Festival Riverside Scene which will be completed at the end of 2013, Beijing Old Street, Four-section Compound, and the Foreign Scene Area which are expected to be completed in 2014. The film shooting base can provide diversified and practical scenes for crews from the PRC and Hong Kong, and is expected to attract a lot of film production companies in the PRC and Hong Kong due to its supreme geographical location and good climate. Confirmations from certain film production companies have been received for the lease of Hong Kong Scene Area, Canton Scene Area and Ming-Qing Dynasty Palace. The studio will be ready for public visitors in early 2014 and it will create another source of income to the Group.

- **Hotels**

There will be two hotels, being National Arts Resort Hotel and National Arts Boutique Hotel, adjacent to the studio. These hotels have rooms at different prices from deluxe suites to economic standard rooms to cater to visitors' needs. National Arts Resort Hotel, a five star hotel, will be completed and commence operation by the end of this year. Featuring a modern European design style and incorporating Greek colour elements and providing 353 suites, it will be one of the most luxurious and distinctive hotels in the region. The construction of National Arts Boutique Hotel in close proximity to it will commence in the third quarter of 2013, which is expected to be completed in the second half of 2014 and will provide approximately 440 rooms.

- ***“Wong Tai Sin Temple” and “Ti Tsang Temple”***

The “Wong Tai Sin Temple” and “Ti Tsang Temple” located in Xiqiao Mountain were completed in July 2011. Wong Tai Sin saint statue made of 99% pure gold, the world's heaviest statue, is enshrined in the temple to attract worshippers and visitors. There were 5,000 to 10,000 visits each month during 2012 and 2013. The Group transferred the ownership of “Wong Tai Sin Temple” and “Ti Tsang Temple” to Xiqiao Town People's Government by entering an agreement pursuant to which the Group is entitled to 70% of the revenue from the Wong Tai Sin Temple on an annual basis for the next 40 years as repayments for consideration. The Group has also received a guarantee made by local government for repayments of not less than RMB74.7 million.

Film Production

The shooting of “Ip Man – The Final Fight”, a film which the Group has conceived and produced for a long time, was completed in early 2013. Its cast includes, among others, Movie Kings Anthony Wong and Eric Tsang, Movie Queen Anita Yuen, Timmy Hung, Gillian Chung and Marvel Chow, an artist of the Group. The film reviews the life of Wing Chun legend grandmaster Ip Man at his old age in Hong Kong. It was chosen as an opening film of this year's Hong Kong International Film Festival, and was also selected to compete at the fifteenth Udine Far East Film Festival. The film was officially released in Hong Kong and Mainland China in March 2013 and distributed in overseas markets, which sparked another Kung Fu craze.

The Group expects this film to attract more visitors to the Xiqiao National Arts Film Studio by enhancing its popularity and create synergies by attracting film production companies for the lease of the shooting area of the studio.

Cinema

NA Films collaborated with its Macau partner for the development of cinema business in a large shopping mall in a transportation hub area of Zhuhai. NA Films holds 60% equity interest in the joint venture. The cinema will boast 8 screens and a total of more than 730 seats, and is expected to commence operation in the second half of the year which will support more comprehensive development of the Group's entertainment and culture business.

Artiste Management

Apart from in the films produced by the Group, our artists Marvel Chow, Dennis To, and Rose Chan will also perform in different films and TV shows. The Group will also identify suitable institutions for them to serve as spokespersons and participate in advertising photography. Joining the Group in August 2012, Marvel Chow was recognised as one of the Ten Outstanding Young Persons in Hong Kong in 2011, and performed in "Ip Man – The Final Fight" invested by the Group.

FUTURE PROSPECT

Despite the slight slow-down of China's economy growth, the PRC film industry will continue to be at a stage of rapid growth in 2013. This, combined with the fact the central Chinese government has actively introduced a series of policies for the tourism and culture industry, will build a favourable business environment for the Group's film and entertainment business. The Group is fully confident in the film industry and will continue to enhance its development.

As for tourism, according to a statistics published by the Tourism Administration of Guangdong Province, the total tourism revenue in Guangdong province was RMB738.9 billion in 2012, representing an increase of 14.7% from the previous year. The rank of Guangdong province in China in terms of total tourism revenue rose to the first this year from the second in 2011. With the completion of the scenic spots of the Xiqiao National Arts Film Studio, the Group believes that it will attract more visitors and become a popular new attraction for short trips within Guangdong province.

FINANCIAL REVIEW

Results

During the period under review, the Group reported a turnover of approximately HK\$3.0 million, a decrease of 4% as compared to the turnover in previous period. The turnover was mainly attributable to the film and artiste management business, while part of the revenue was generated from the business of film studio in the PRC.

Other operating income for the period under review decreased by approximately HK\$26.8 million due to the net off effect of (i) a gain on deregistration of subsidiaries amounted to approximately HK\$1.3 million; (ii) an one-off construction management fee income during the previous period amounted to approximately HK\$26.8 million was from a local government company located in Foshan City, the PRC; and (iii) a gain on disposal of a property located in Hong Kong during 2012 amounted to approximately HK\$2.9 million.

Staff costs for the period under review decreased to approximately HK\$6.5 million from approximately HK\$10.9 million in previous period. A decrease of approximately HK\$4.4 million in staff costs was mainly due to no share option expense was recognised during the period under review.

Finance costs for the period under review decreased approximately HK\$2.2 million as less interest on convertible bonds was incurred during the period under review.

For the six months ended 30 June 2013, the Group recorded a net loss of HK\$13.8 million as compared to net profit of the comparable period of approximately HK\$9.5 million. The record of loss for the six months ended was mainly due to the decrease of other operating income as mentioned above.

Liquidity and Financial Resources

	30 June 2013 (Unaudited) HK\$'000	31 December 2012 (Audited) HK\$'000
Current assets	312,573	198,546
Current liabilities	209,785	163,943
Current ratio	149.0%	121.1%

Current ratio as at 30 June 2013 was 149.0% (31 December 2012: 121.1%). As at 30 June 2013, the Group's total cash and cash equivalents amounted to approximately HK\$269.7 million (31 December 2012: HK\$157.5 million).

Dividend

The directors do not recommend payment of an interim dividend for the period ended 30 June 2013 (2012: Nil).

Capital Structure and Gearing Ratio

The shares of the Company were listed on the GEM of the Stock Exchange on 17 October 2002. The capital of the Company comprises only ordinary shares. As at 30 June 2013, 4,056,270,695 ordinary shares were issued and fully paid.

	30 June 2013		31 December 2012	
	Amount (Unaudited) HK\$'000	Relative%	Amount (Audited) HK\$'000	Relative%
Loans from a related company	6,400	0.6%	13,400	1.6%
Borrowings	25,000	2.3%	25,000	2.9%
Bonds	68,595	6.4%	–	–
Convertible bonds	80,147	7.4%	–	–
Finance lease liabilities	18,566	1.7%	17,613	2.1%
Total borrowings	198,708	18.4%	56,013	6.6%
Equity	878,387	81.6%	793,815	93.4%
Total capital employed	1,077,095	100.0%	849,828	100.0%

The Group's gearing ratio was approximately 18.4% as at 30 June 2013 (31 December 2012: 6.6%). The increase in the gearing ratio was due to the issue of bonds and convertible bonds on 23 May 2013. If the bonds (liabilities component) and convertible bonds (liability component) amounted to HK\$68.6 million and HK\$80.1 million respectively, were to be excluded, the underlying gearing ratio was 5.4% (2012: 6.6%) only.

Issuance of bonds with unlisted warrants and convertible bonds

On 23 May 2013, the Company issued (i) bonds with principal amount of HK\$78,775,000 for a consideration of HK\$78,775,000, 78,775,000 unlisted warrants were attached and issued, for no additional payment, by the Company to the first registered holders of the bonds on the basis of one warrant for every HK\$1.00 in the principal amount of the bonds taken up; and (ii) the Company issued convertible bonds with principal amount of HK\$92,000,000. Both bonds and convertible bonds are carried interest at 7.5% per annum and repayable two years after the date of issue.

Foreign Currency Exposure

The Group's reporting currency is in Hong Kong dollars. During the reporting period for the six months ended 30 June 2013, 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.

Commitments

Details of the Group's commitments are set out in note 17.

Material Acquisitions and Disposals

Other than disclosed in paragraph of Subsequent Events, the Group did not acquire or dispose of any material subsidiaries and affiliated companies during the period under review.

Future Plans for Substantial Investments or Capital Assets

Other than disclosed in paragraph of Subsequent Events, the Group did not have any plan for substantial investments or capital assets.

Subsequent Events

Acquisition of 49% of the shares in the capital of Head Return Limited and 49% of the shares in the capital of Expand Pacific Limited

On 28 June 2013, the Company entered into an acquisition agreement with Mr. Sin as the vendor for the Company's purchase of 49 shares, representing 49% of all the issued shares in the capital, of each of Head Return Limited and Expand Pacific Limited at a consideration of HK\$550,000,000 payable as to HK\$130,000,000 by cash and as to HK\$420,000,000 by issue of the Convertible Bonds, in aggregate, convertible into 3,750,000,000 shares of HK\$0.01 each in the capital of the Company (the "Acquisition"). The Acquisition is not yet completed as at 30 June 2013 and further details of the Acquisition are set out in the announcement dated 9 July 2013.

Contingent Liabilities

At 30 June 2013, the Company had corporate guarantee of HK\$6,400,000 (31 December 2012: HK\$13,400,000) given to a related company to secure loans to NA Entertainment. No provision for the Company's obligation under the guarantee contract has been made as the directors considered that the fair value of the leasehold land and building being pledged to bank exceeds the carrying amount of the loan and it is not probable that a claim will be made against the Company under the guarantee contract.

ADDITIONAL INFORMATION

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 Post-IPO Share Option Scheme. The principal terms of the Post-IPO Share Option Scheme are set out in Appendix IV to the prospectus of the Company dated 9 October 2002.

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

Post-IPO Share Option Scheme

As at 30 June 2013, the share options to subscribe for an aggregate of 124,255,233 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 2013 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 2013
			As at 1 January 2013	Granted during the period	Exercised during the period	Lapsed during the period	
Directors	0.38	13 May 2010	2,728,947	-	-	-	2,728,947
Directors	0.35	20 May 2010	886,286	-	-	-	886,286
Directors	0.30	29 September 2010	120,640,000	-	-	-	120,640,000
Total			124,255,233	-	-	-	124,255,233

New Share Option Scheme

As at 30 June 2013, the share options to subscribe for an aggregate of 104,022,000 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 2013 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 2013
			As at 1 January 2013	Granted during the period	Exercised during the period	Lapsed during the period	
Directors	0.79	28 March 2011	97,539,240	-	-	-	97,539,240
Directors	0.58	31 March 2012	6,482,760	-	-	-	6,482,760
Total			104,022,000	-	-	-	104,022,000

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

As at 30 June 2013, 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 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 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	976,390,000	–	976,390,000	24.07%
	Interest of spouse	33,360,000	–	33,360,000	0.82%
Miss Law Po Yee (Note 1)	Beneficial owner	33,360,000	–	33,360,000	0.82%
	Interest of spouse	976,390,000	–	976,390,000	24.07%
(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 1,009,750,000 Shares, representing approximately 24.89% 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	As at 1 January 2013	Number of share options			Outstanding as at 30 June 2013
					Granted during the period	Exercised during the period	Lapsed during the period	
Mr. Sin Kwok Lam (Director)	29 September 2010	0.30	29 September 2010 to 2 September 2020	76,800,000	-	-	-	76,800,000
Miss Law Po Yee (Director)	29 September 2010	0.30	29 September 2010 to 2 September 2020	38,400,000	-	-	-	38,400,000
Mr. Lam Kwok Hing Wilfred (Director)	13 May 2010	0.38	13 May 2010 to 12 May 2020	2,407,894	-	-	-	2,407,894
	29 September 2010	0.30	29 September 2010 to 2 September 2020	5,200,000	-	-	-	5,200,000
Mr. Chow Kai Weng (Director)	29 September 2010	0.30	29 September 2010 to 2 September 2020	240,000	-	-	-	240,000
Mr. Li Sin Hung Maxim (Director)	20 May 2010	0.35	20 May 2010 to 19 May 2020	241,714	-	-	-	241,714
Mr. Chui Chi Yun, Robert (Director)	13 May 2010	0.38	13 May 2010 to 12 May 2020	321,053	-	-	-	321,053
Mr. Chan Tin Lup, Trevor (Director)	20 May 2010	0.35	20 May 2010 to 19 May 2020	322,286	-	-	-	322,286
Prof. Wong Lung Tak, Patrick (Director)	20 May 2010	0.35	20 May 2010 to 19 May 2020	322,286	-	-	-	322,286

ii. New Share Option Scheme

Details of grantees	Date of grant	Exercise price per share (HK\$)	Exercisable period	As at 1 January 2013	Number of share options			Outstanding as at 30 June 2013
					Granted during the period	Exercised during the period	Lapsed during the period	
Mr. Sin Kwok Lam (Director)	28 March 2011	0.79	28 March 2012 to 27 March 2021	32,405,063	-	-	-	32,405,063
	31 March 2012	0.58	31 March 2012 to 30 March 2017	1,296,552	-	-	-	1,296,552
Miss Law Po Yee (Director)	28 March 2011	0.79	28 March 2012 to 27 March 2021	32,405,063	-	-	-	32,405,063
	31 March 2012	0.58	31 March 2012 to 30 March 2017	1,296,552	-	-	-	1,296,552
Mr. Lam Kwok Hing Wilfred (Director)	28 March 2011	0.79	28 March 2012 to 27 March 2021	18,146,834	-	-	-	18,146,834
	31 March 2012	0.58	31 March 2012 to 30 March 2017	648,276	-	-	-	648,276
Mr. Chow Kai Weng (Director)	28 March 2011	0.79	28 March 2012 to 27 March 2021	567,089	-	-	-	567,089
	31 March 2012	0.58	31 March 2012 to 30 March 2017	648,276	-	-	-	648,276
Miss Sin Ho Yee (Director)	28 March 2011	0.79	28 March 2012 to 27 March 2021	12,962,025	-	-	-	12,962,025
	31 March 2012	0.58	31 March 2012 to 30 March 2017	486,207	-	-	-	486,207
Mr. Li Sin Hung Maxim (Director)	28 March 2011	0.79	28 March 2012 to 27 March 2021	81,013	-	-	-	81,013
	31 March 2012	0.58	31 March 2012 to 30 March 2017	162,069	-	-	-	162,069
Mr. Chui Chi Yun, Robert (Director)	28 March 2011	0.79	28 March 2012 to 27 March 2021	324,051	-	-	-	324,051
	31 March 2012	0.58	31 March 2012 to 30 March 2017	648,276	-	-	-	648,276
Mr. Chan Tin Lup, Trevor (Director)	28 March 2011	0.79	28 March 2012 to 27 March 2021	324,051	-	-	-	324,051
	31 March 2012	0.58	31 March 2012 to 30 March 2017	648,276	-	-	-	648,276
Prof. Wong Lung Tak, Patrick (Director)	28 March 2011	0.79	28 March 2012 to 27 March 2021	324,051	-	-	-	324,051
	31 March 2012	0.58	31 March 2012 to 30 March 2017	648,276	-	-	-	648,276

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

As at 30 June 2013, 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	805,068,000	19.85%

EMPLOYEE AND REMUNERATION POLICY

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.

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

During the six months ended 30 June 2013, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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.

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 Prof. Wong Lung Tak, Patrick.

The Group's unaudited results for the six months ended 30 June 2013 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.

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 all of the code provisions set out in the Code on Corporate Governance (the "Code") contained in Appendix 15 of the GEM Listing Rules during the six months ended 30 June 2013.

The Company has prepared a corporate governance report in accordance with Rule 18.44(2) of the GEM Listing Rules attached to the 2012 annual report of the Company.

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 2013.

By Order of the Board

National Arts Entertainment and Culture Group Limited

Law Po Yee

*Vice Chairperson, Executive Director
and Chief Executive Officer*

Hong Kong, 13 August 2013

CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman and Non-executive Director

Mr. Sin Kwok Lam

Vice Chairperson, Executive Director and Chief Executive Officer

Miss Law Po Yee

Vice Chairman and Non-executive Director

Mr. Lam Kwok Hing Wilfred

Executive Directors

Mr. Chow Kai Weng

Miss Sin Ho Yee

Non-executive Director

Mr. Li Sin Hung Maxim

Independent Non-executive Directors

Mr. Chan Tin Lup Trevor

Mr. Chui Chi Yun Robert

Prof. Wong Lung Tak Patrick

COMPANY SECRETARY

Mr. Chan Man Hung

COMPLIANCE OFFICER

Miss Law Po Yee

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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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

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AUTHORISED REPRESENTATIVES

Miss Law Po Yee

Mr. Chow Kai Weng

COMMITTEES

Audit Committee

Mr. Chui Chi Yun Robert (*Chairman*)

Mr. Chan Tin Lup Trevor

Prof. Wong Lung Tak Patrick

Remuneration Committee

Mr. Chui Chi Yun Robert (*Chairman*)

Mr. Chan Tin Lup Trevor

Prof. Wong Lung Tak Patrick

Nomination Committee

Mr. Sin Kwok Lam (*Chairman*)

Mr. Chan Tin Lup Trevor

Prof. Wong Lung Tak Patrick

LEGAL ADVISORS

Conyers Dill & Pearman

AUDITOR

BDO Limited, Certified Public Accountants

PRINCIPAL BANKERS

Hang Seng Bank

REGISTERED OFFICE

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GROUP'S WEBSITE

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STOCK CODE

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