National Arts

# National Arts Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code : 8228)

## // Annual Report 2010 //

# Contents

# Corporate Information

## BOARD OF DIRECTORS

**Chairman and Non-executive Director**
Mr. Sin Kwok Lam

**Vice Chairman and Executive Director**
Miss Law Po Yee

**Vice Chairman and Non-executive Director**
Mr. Lam Kwok Hing Wilfred

**Executive Directors**
Mr. Tang Yat Ming Edward
Mr. Li Sin Hung Maxim
Mr. Chow Kai Weng
Miss Sin Ho Yee

**Independent Non-executive Directors**
Mr. Chan Tin Lup Trevor
Mr. Chui Chi Yun Robert
Dr. Wong Lung Tak Patrick

## COMPANY SECRETARY

Mr. Tang Yat Ming Edward

## COMPLIANCE OFFICER

Mr. Li Sin Hung Maxim

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit B, 2/F Jone Mult Factory Building
169 Wai Yip Street
Kwun Tong
Kowloon, Hong Kong

## SHARE REGISTRAR AND TRANSFER OFFICES

**Principal share registrar and transfer office**
Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

**Hong Kong branch share registrar and transfer office**
Tricor Secretaries Limited
26/F., Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

## AUTHORISED REPRESENTATIVES

Mr. Tang Yat Ming Edward
Mr. Li Sin Hung Maxim

## COMMITTEES

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

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

## LEGAL ADVISORS

Conyers Dill & Pearman

## AUDITORS

BDO Limited, Certified Public Accountants

## PRINCIPAL BANKERS

Hang Seng Bank

## REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

## GROUP'S WEBSITE

http://www.nationalarts.hk

## STOCK CODE

8228

Dear Shareholders,

I am reporting the activities of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010.

The Company is committed to the development of cultural entertainment in order to develop multiple perspectives and promote sustainable development of cultural industries. The Group continues to work on all aspects of this development and aims at taking the business worldwide. With favorable government support, the rapid growth of movie and tourism industries, I believe that the direction will quickly bring positive impact to the Group.

Looking to the future, as well as different films, cultural and entertainment projects, National Arts will invest a number of projects in Foshan, including:

1. A film shooting base with various shooting scene

2. A theme park

3. A five-star resort hotel

4. A boutique hotel

5. A performance stadium

6. A "Wong Tai Sin" Taoist temple and a Buddhist 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 favorable 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 phrase by phase. 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, the two upcoming and promising artistes, Mr. To Yu Hang and Miss Rose Chan have become popular not only in Hong Kong and PRC but also in other Asian countries. Their recognition and effort over past years have earned various nominations and awards from the film industry. Besides the movies produced by the Group, they have secured roles in different upcoming movies, TV drama, spokesman and advertising. With a number of jobs under negotiations, the Company expects positive contribution from the artiste management and therefore would further expand this segment.

# Chairman's Statement

The first produced movie of the Company, namely "The Legend is Born – Ip Man" was released in June 2010. As a result of relatively large amount of marketing expenses, this movie has strengthened the Company's position, network and experience in the entertainment and film industries. However, the movie could not bring positive result to the Group. In view of rapid growth of film sector, the management still has full confidence on film production and the Group would conclude the experience for future investment in this business segment. In coming period, the management plans to produce two to three new movies.

The Group continues to seek and explore other entertainment-related and film-related development opportunities. In order to reserve resources for promising areas, the engineering business would not be continued due to the poor financial result.

With clear objective and professional attitude, the management will inject new concepts and elements in the project planning in the hope that new strength can be added to cultural entertainment. This would facilitate the Group to access unlimited possibilities and business opportunities.

In order to cope with the expansion, there were capital reorganization, change of domicile from Cayman Island to Bermuda and financing activities in 2010 for the purpose of strengthening capital base and financing development needs.

I believe that the Group will enjoy a brilliant future!

## PROSPECTS

In 2010, 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.

For the acquisition of Head Return Limited and Expand Pacific Limited, the Group has taken into consideration of various factors, including but not limited to (i) the aggregate rental saving; (ii) the market potential of the studio, theme park and hotels; (iii) the synergy effect with the existing business of the Group and (iv) the guaranteed amount offered by Mr. Sin, the vendor. We believe that the project will bring positive financial contribution to the Group in coming 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 started to 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 would further expand this segment.

Due to the past management, the movie segment could not bring positive result to the Group. However, in view of rapid growth of film sector, the management still has full confidence on film production. After evaluation and concluding the experience, the management plans to produce two to three new movies.

Further, the Group is looking for other development opportunities in relation to film and artiste management industries.

## FINANCIAL REVIEW

### Results

During the year under review, the Group reported a turnover of approximately HK$11 million, an increase of HK$10 million as compared to the turnover in previous year for the continuing operations. The turnover was mainly attributable to the film and artiste management business, which were the new business in 2010.

Staff costs for the year under review increased to approximately HK$12 million from approximately HK$3 million in previous year. An increase of approximately HK$9 million in staff cost was mainly due to the share options granted to directors and employees during the year under review.

Cost of film production for the year under review increased approximately HK$27 million due to film products amortised for the movie “The Legend is Born – Ip Man”.

For the year ended 31 December 2010, the Group recorded a net loss of approximately HK$0.3 million from discontinued operations of subsidiaries.

Net loss attributable to shareholders for the year was HK$36 million as compared to net profit of the preceding year of approximately HK$20 million.

## Liquidity and Financial Resources

During the year ended 31 December 2010, the Group financed its operations with its own working capital, internally generated cash flow, proceeds from issuance of new shares and bank loan. As at 31 December 2010, the Group has bank loan of HK$4 million and has cash of HK$161 million.

## Dividend

The directors do not recommend payment of a final dividend for the year ended 31 December 2010 (2009: Nil).

## Capital Structure

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 31 December 2010, 665,854,139 ordinary shares were issued and fully paid. During the year under review, the Company has made the following changes:

1. On 29 September 2010, every 10 issued and unissued Shares of HK$0.01 each in the share capital of the Company were consolidated into 1 Consolidated Share of HK$0.10 each.

2. The domicile of the Company has been changed from Cayman Islands to Bermuda by way of de-registration in the Cayman Islands and continuation into Bermuda as an exempted company under the laws of Bermuda.

3. Before the change of domicile, the entire amounts standing to the credit of the share premium account of the Company were cancelled and the credits arising from such cancellation were transferred to an existing account of the Company designated as the contributed surplus account of the Company.

4. The following capital reorganization were implemented:

   A. the reduction of the par value of each of the issued existing shares from HK$0.10 each to HK$0.01 each by canceling the paid up capital of the Company to the extent of HK$0.09 on each of the issued existing shares;

   B. the subdivision of each authorized but unissued existing shares of HK$0.10 each into 10 new shares of HK$0.01 each;

   C. the transfer of the credit arising from the Capital Reduction to the contributed surplus account of the Company within the meaning of the Companies Act 1981 of Bermuda;

   D. the utilization of the credits standing to the contributed surplus account of the Company within the meaning of the Companies Act 1981 of Bermuda after the cancellation of Share Premium Account and the event referred to in C above to offset the Accumulated Losses in full on 9 November 2010, which the Capital Reorganisation become effective.

### Foreign Exchange Exposure

Since most of the transactions of the Group are denominated either in Hong Kong Dollars or Renminbi or US dollars and the exchange rates of such currencies were stable over years under review, the Directors are of the view that the exposure to foreign currency exchange risk is limited. Hence, no hedging or other arrangements to reduce the currency risk have been implemented.

### Material Acquisitions or Disposal of Subsidiaries and Affiliated Companies

The Group had no material acquisitions or disposals of subsidiaries and affiliated companies in the course of the financial year ended 31 December 2010.

### Capital Commitment and Substantial Investments

Other than those disclosed, the Group did not have any capital commitment and substantial investments.

### Future Plans for Substantial Investments or Capital Assets

With the completion of the acquisition of 51% of the shares in the capital of each of Head Return Limited and Expand Pacific Limited on 28 February 2011, the Group would involve capital commitment of approximately HK$766 million and operating lease commitment of approximately HK$61 million. Other than those disclosed, the Group did not have any plan for substantial investments or capital assets.

### Subsequent Events

1. ***Acquisition of 51% of the shares in the capital of Head Return Limited and 51% of the shares in the capital of Expand Pacific Limited***

   On 18 November 2010, the Company entered into an acquisition agreement with Mr. Sin as the vendor for the Company's purchase of 51 shares, representing 51% of all the issued shares in the capital, of each of Head Return Limited and Expand Pacific Limited at a consideration of HK$300,000,000 payable as to HK$30,000,000 by cash, as to HK$148,500,000 by issue of 135 million new Shares of HK$0.01 each in the capital of the Company at an issue price of HK$1.1 per Share and as to HK$121,500,000 by issue of the Convertible Bonds, in aggregate, convertible into 110,454,545 shares of HK$0.01 each in the capital of the Company (the "Acquisition"). The Acquisition was completed on 28 February 2011 and further details of the Acquisition are set out in the announcement dated 18 November 2010.

2. ***Placing of shares***

   On 18 November 2010, the Company entered into the placing agreement between Orient Securities Limited as the placing agent and the Company for the placing of up to 400,000,000 shares of HK$0.01 each in the capital of the Company ("Placing Shares") at a price to be agreed by the parties thereto subject to a minimum of HK$1.1 per share. The placing agreement was approved at the Special General Meeting on 23 February 2011.

### 3. *Issue of convertible bonds*

Pursuant to a special resolution passed on 23 February 2011, the Company has resolved to issue convertible bonds ("CB") in 2 batches. The issue of CB in the principal amount of HK$71,500,000 to Mr. Sin with a maturity date due on 28 February 2014 (the "CB1"). The CB1 will, at the option of Mr. Sin, be convertible at any time after 1 March 2011 into ordinary shares of the Company at an initial conversion price of HK$1.1 per share subject to adjustment in the event of bonus issue or free distribution of the shares of the Company, subdivision, consolidations, capital distribution, rights issue and issues of shares at less than the conversion price by the Company. The interest rate of the CB1 is 1% on the outstanding principal amount of the CB1 from time to time payable on each anniversary day of the issue of CB1.

Another CB issued in the principal amount of HK$50,000,000 to Mr. Sin with a maturity date due on 28 February 2017 (the "CB2"). The conversion period of the CB2 is any time after receipt of a confirmation that the Guaranteed Profits have been accomplished. Details of the proposed terms of the CB are set out in the Company's circular dated 7 February 2011.

## Contingent Liabilities

The Group did not have any material contingent liabilities at the end of reporting date.

## Gearing Ratio

The Group's gearing ratio as at 31 December 2010 increased to 1.61% (2009: nil). The gearing ratio was based on the Group's total debts over its total assets.

## Material Acquisitions or Disposals

During the year ended 31 December 2010, the Company has acquired a property which was situated at Unit A, 2/F., 169 Wai Yip Street, Kwun Tong, Kowloon from an independent party for a consideration of HK$6,600,000 and another property situated at Unit B, 2/F., 169 Wai Yip Street, Kwun Tong, Kowloon from Mr. Sin for a consideration of HK$6,480,000.

## Employee and Remuneration Policy

As at 31 December 2010, the Group had a total of 27 (2009: 11) staff based in the PRC and Hong Kong. The Group remunerates its employees based on their performances, experiences and the prevailing industry practices. In addition to basic salaries and mandatory provident fund, staff benefits including medical coverage scheme and share options are offered.

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 retention of experienced staff. The Directors believe that the Group has a good working relationship with its employees.

# Biographical Details of Directors

## EXECUTIVE DIRECTORS

**Miss Law Po Yee**, aged 32, was appointed as the Vice Chairman of the Board on 26 October 2010 and as an Executive Director of the Company on 5 August 2010. Miss Law has extensive experience in entertainment, artiste management and film production industries. Miss Law also has years of banking experience, specializing in risk management. Miss Law is the spouse of Mr. Sin.

**Mr. Tang Yat Ming Edward**, aged 46, is the Chief Executive Officer of the Board and the Company Secretary of the Company. Mr. Tang joined the Group in September 2008. Mr. Tang holds a bachelor degree of Management and is a member of the Hong Kong Institute of Certified Public Accountants and the American Institute of Certified Public Accountants. Mr. Tang is a Chartered Financial Analyst. Prior to joining the Group, Mr. Tang held senior financial positions in various technology, telecommunication, and manufacturing companies. He has about 19 years' experience covering accounting, finance, investment and business development. Mr. Tang was appointed as an Executive Director in December 2009.

**Mr. Li Sin Hung Maxim**, aged 40, joined Cathay Pacific Airway Limited in early 1990's. After resigned from Cathay Pacific, Mr. Li continued his education in Boston and started food and beverage business and plastic resin trading business in United States. In 2000, Mr. Li returned to Hong Kong and had been worked in HSBC, Federal Express Pacific Inc. and Midland Holdings Limited. Mr. Li is a current holder of Estate Agents Licence (Individual). Mr. Li was appointed as an Executive Director in May 2009.

**Mr. Chow Kai Weng**, aged 26, joined the Group in January 2010. Mr. Chow holds a bachelor degree of Business Administration with previous experiences in media and financial industries.

**Miss Sin Ho Yee,** aged 26, joined the Group in March 2011. Miss Sin holds a diploma of Communication from the Melbourne Institute of Business and Technology.

## NON-EXECUTIVE DIRECTORS

**Mr. Sin Kwok Lam**, aged 53, was appointed as the Chairman of the Board and the Executive Director of the Board on 31 May 2010. Mr. Sin has over 20 years' banking experience in various departments including Internal Audit, Finance, Risk Management and Business. Mr. Sin is an associate member of the Chartered Institute of Banker, and he holds a master degree in Business Administration from Oklahoma City University, USA, a Certified Diploma in Accounting and Finance from the Chartered Association of Certified Accountants and a Graduate Diploma in Law Course from City University, London, UK. Mr. Sin was re-designated from an Executive Director to a Non-executive Director in October 2010.

**Mr. Lam Kwok Hing Wilfred**, *J.P.* aged 51, was appointed as the Non-executive Vice Chairman of the Board on 5 August 2010. Mr. Lam has been awarded Queen's Badge of Honour in January 1997 and was appointed as the Justice of Peace by the HKSAR in 1999. Mr. Lam holds a bachelor degree of Law with honors in the University of Hong Kong and is a practising solicitor of Hong Kong. He also holds the professional qualification of Estate Agent's (Individual) Licence in Hong Kong. He is presently a Senior Associate of Philip KH Wong, Kennedy YH Wong & Co., Solicitors & Notaries. Being an active member in social and charity activities, Mr. Lam is an Assistant Commissioner & Support Force Commander of the Civil Aid Service and Director of the Kwai Tsing District Community Development Fund in Hong Kong. He is also an executive member of the liaison association of the Chinese People's Political Consultative Conference, Guangdong Province and was a member of the political consultative commission of Guandong Province. Mr. Lam is an independent non-executive director of Value Convergence Holdings Limited (stock code: 821.hk). Mr. Lam was re-designated from an Independent Non-executive Director to a Non-executive Director in February 2010. Prior to the re-designation, Mr. Lam has joined the Group since May 2009 as an Independent Non-executive Director.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Chan Tin Lup Trevor**, aged 51, was born in Hong Kong and has been in the legal field for over 20 years. He received his law degree in England where he was awarded the Postgraduate Diploma in Laws (the Legal Practice Course) from the University of Wolverhampton. Apart from his law degree, he also obtained a bachelor degree in Chinese literature and history. Before he commenced his practice, he had worked with the Insolvency and Criminal Litigation Sections of the Legal Aid Department for 12 years. As for the public service, Mr. Chan was an honorary chairman and legal adviser of the Urban Services Staff Association (Tsuen Wan Welfare Section). He was also the former Chairman of the Parent Teacher Association of St. Mark's School. His articles on "Default Judgments" and "Borrowing Other's Brand Name – Passing-off" were published in the monthly official journal of the Law Society of Hong Kong and in Hong Kong Economic Times. He is a general practice lawyer but his practice is mainly in civil litigation, criminal litigation, judicial review, immigration and company matters. Mr. Chan is also an Independent Non-executive director of Sun International Group Limited (Stock Code: 8029). Mr. Chan was appointed as an Independent Non-executive Director in May 2009.

**Mr. Chui Chi Yun Robert,** aged 54, holds a Bachelor's degree in Commerce (major in Accounting) and is a practicing Certified Public Accountant in Hong Kong. Mr. Chui is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in the United Kingdom. Mr. Chui is also an independent non-executive director of Tse Sui Luen Jewellery (International) Limited (stock code: 417) and 21 Holdings Limited (stock code: 1003). Mr. Chui was appointed as an Independent Non-executive Director in May 2009.

**Dr. Patrick Wong Lung Tak**, *BBS, JP*, aged 63, has been an Independent Non-executive Director of the Company since 3 February 2010. Dr. Wong is a Certified Public Accountant (Practising) in Hong Kong and the Managing Practising Director of Patrick Wong CPA Limited, Wong Lam Leung & Kwok CPA Limited and Hong Kong Pengcheng CPA Limited. He has over 30 years experience in the accountancy profession. Dr. Wong holds a Doctor of Philosophy in Business degree, was awarded a Badge of Honour by the Queen of England in 1993 and was appointed a Justice of the Peace in 1998. He was also awarded a Bronze Bauhinia Star by the Government of the HKSAR in 2010. He has been appointed Adjunct Professor, School of Accounting and Finance of the Hong Kong Polytechnic University since 2002. Dr. Wong participates in many types of community services and is holding posts in various organisations and committees in government and voluntary agencies. Dr. Wong is an Independent Non-executive director of China Precious Metal Resources Holdings Co., Ltd., C C Land Holdings Limited, Water Oasis Group Limited, Sino Oil and Gas Holdings Limited, Galaxy Entertainment Group Limited, Guangzhou Pharmaceutical Company Limited and Ruinian International Limited, all of which are listed on the Main Board of the Stock Exchange.

The board of directors (the "Board") has pleasure in presenting the directors' report together with the audited financial statements of National Arts Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010.

## PRINCIPAL ACTIVITIES

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 solution services and investment in securities.

The analysis of the principal activities and geographical locations of the operations of the Group are set out in note 6 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2010 are set out in the consolidated statement of comprehensive income on page 28.

No dividend was paid during the year. The Board does not recommend the payment of a dividend for the year ended 31 December 2010 (2009: Nil).

## FINANCIAL SUMMARY

A summary of the financial results and the assets, liabilities and equity of the Group for the last five financial years is set out on page 108.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group and the Company during the year are set out in note 15 to the consolidated financial statements.

## SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 16 to the consolidated financial statements.

## SHARE CAPITAL AND WARRANTS

Details of movements in share capital of the Company during the year are set out in note 31 to the consolidated financial statements.

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 32 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES

As at 31 December 2010, the Company has approximately HK$76 million reserves available for distribution to shareholders (2009: Nil).

## DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

**Chairman and Non-executive Director:**
Mr. Sin Kwok Lam – appointed on 31 May 2010 and re-designated from Executive Director on 26 October 2010

**Vice Chairman and Executive Director:**
Miss Law Po Yee – appointed on 5 August 2010

**Vice Chairman and Non-executive Director:**
Mr. Lam Kwok Hing Wilfred – re-designated from Independent Non-executive Director on 3 February 2010

**Executive Directors:**
Mr. Tang Yat Ming Edward
Mr. Li Sin Hung Maxim
Mr. Poon Shu Yan Joseph – resigned on 15 November 2010
Mr. Chow Kai Weng – appointed on 25 March 2011
Miss Sin Ho Yee – appointed on 25 March 2011

**Independent Non-executive Directors:**
Mr. Chan Tin Lup Trevor
Mr. Chui Chi Yun Robert
Dr. Wong Lung Tak Patrick – appointed on 3 February 2010

In accordance with Bye-law 84 of the Bye-laws of the Company, Mr. Li Sin Hung Maxim, Mr. Chui Chi Yun Robert and Dr. Wong Lung Tak Patrick shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. All other directors continue in office.

## DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors and Non-executive Directors of the Company has entered into a service contract with the Company for a term of one year. The service contract is terminable from either party by serving a written notice to the other of not less than one calendar month. Each Executive Director and Non-executive Director is entitled to a basic salary and remuneration subject to an annual revision by the Board.

Details of the directors' fees or emolument payable to Directors are set out in note 14 to the consolidated financial statements.

Each of the Independent Non-executive Directors of the Company has been appointed for a term of one year with specific terms as stated in the letter of appointment. The letter of appointment is terminable from either party by serving a written notice to the other of not less than one calendar month.

Save as disclosed above, none of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

## INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each Independent Non-executive Director an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). The Board considers all the Independent Non-executive Directors of the Company are independent.

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

As at 31 December 2010, the interests and short positions of the Directors and Chief Executive of the Company and their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

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

| | Number of shares of the Company** | | | Approximate percentage of the issued share capital of the Company |
|---|---|---|---|---|
| **Name of Directors** | **Beneficial owner** | **Interest in controlled corporation** | **Total** | |
| Mr. Sin Kwok Lam[1] | 18,198,000 | – | 18,198,000 | 2.73% |
| Miss Law Po Yee[1] | 6,672,000 | – | 6,672,000 | 1.00% |

Note:

1. Miss Law Po Yee is Mr. Sin Kwok Lam's spouse.

## 2. Rights to acquire shares in the Company

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

| Name of Directors | Date of grant | Exercise price per share** (HK$) | Exercisable period | Number of share options** As at 1 January 2010 | Granted during the period | Exercised during the period | Lapsed during the period | As at 31 December 2010 |
|---|---|---|---|---|---|---|---|---|
| Mr. Sin Kwok Lam | 29 September 2010 | 0.48 | 3 September 2010 to 2 September 2020 | – | 48,000,000 | – | – | 48,000,000 |
| Miss Law Po Yee | 29 September 2010 | 0.48 | 3 September 2010 to 2 September 2020 | – | 24,000,000 | – | – | 24,000,000 |
| Mr. Tang Yat Ming Edward | 13 May 2010 | 0.61 | 13 May 2010 to 12 May 2020 | – | 400,000 | – | – | 400,000 |
| Mr. Lam Kwok Hing Wilfred | 13 May 2010 | 0.61 | 13 May 2010 to 12 May 2020 | – | 1,500,000 | – | – | 1,500,000 |
| Mr. Lam Kwok Hing Wilfied | 29 September 2010 | 0.48 | 3 September 2010 to 2 September 2020 | – | 3,250,000 | – | – | 3,250,000 |
| Mr. Chui Chi Yun Robert | 13 May 2010 | 0.61 | 13 May 2010 to 12 May 2020 | – | 200,000 | – | – | 200,000 |
| Mr. Li Sin Hung Maxim | 20 May 2010 | 0.564 | 20 May 2010 to 19 May 2020 | – | 150,000 | – | – | 150,000 |
| Mr. Chan Tin Lup Trevor | 20 May 2010 | 0.564 | 20 May 2010 to 19 May 2020 | – | 200,000 | – | – | 200,000 |
| Dr. Wong Lung Tak Patrick | 20 May 2010 | 0.564 | 20 May 2010 to 19 May 2020 | – | 200,000 | – | – | 200,000 |
| Mr. Poon Shu Yan Joseph*** | 10 November 2006 | 3.53* | 10 November 2006 to 9 November 2016 | 883,841* | – | – | – | 883,841* |
| Mr. Poon Shu Yan Joseph*** | 20 May 2010 | 0.564 | 20 May 2010 to 19 May 2020 | – | 100,000 | – | – | 100,000 |

* Pursuant to the announcement regarding to the result of the Open Offer dated 12 April 2010, the exercise price of the share options and the number of outstanding share options as at the completion of the Open Offer were required to be adjusted as a result of the Open Offer.

** Pursuant to the announcement dated 17 August 2010, 27 August 2010, 29 September 2010 and the resolution passed by the EGM of the Company on 29 September 2010, the exercise prices and the number of the share options were adjusted due to the Share Consolidation that every 10 issued and unissued Shares of HK$ 0.01 each in the share capital of the Company into 1 Consolidated Share of HK$0.10 each.

*** Resigned on 15 November 2010 and his stock options were lapsed on 14 February 2011 according to stock option scheme.

Save as disclosed above, none of the Directors, Chief Executive or their associates had, as at 31 December 2010, any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

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

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

As at 31 December 2010, the persons or corporations who had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of Part XV of the SFO or had otherwise been notified to the Company were as follows:

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

| Name of shareholder | Capacity | No. of shares held | Approximate percentage of the issued share capital of the Company |
|---|---|---|---|
| Tse Young Lai | Beneficial owner | 125,665,333 | 18.87% |

## 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 Post-IPO Share Option Scheme was adopted and the existing Post-IPO Share Option Scheme was terminated. The principal terms of new Post-IPO Share Option Scheme are set out in the circular of the Company dated 6 September 2010.

## Pre-IPO Share Option Scheme

As at 31 December 2010, the share options to subscribe for an aggregate of 196,507 shares of the Company granted pursuant to the Pre-IPO Share Option Scheme were outstanding. A portion of each grantee's right to exercise the options that has been conditionally granted under the Pre-IPO Share Option Scheme shall be deemed to have vested on 17 June 2002 (such portion is fixed on the basis of the grantee's employment period and/or contribution to the Group and is set in the table below) and the rest of the right shall continue to vest over a period of not more than 4 years from 17 June 2002 (the "Listing Date") on a monthly basis each time from 1/48th of the total number of shares comprised in the options and, subject to that no options granted under the Pre-IPO Share Option Scheme can be exercised before the expiration of 1 year from the Listing Date, any vested right shall remain exercisable for 10 years from the date of acceptance of the relevant options. No further options will be offered or granted under the Pre-IPO Share Option Scheme as the right to do so ends on 9 October 2002, being the date of publication of the Prospectus.

The details of the Pre-IPO Share Option Scheme as at 31 December 2010 are set out as follows:

| | | Number of share options** | | | |
|---|---|---|---|---|---|
| **Category of participants** | **Exercise price per share**** (HK$) | **As at 1 January 2010** | **Exercised during the period** | **Lapsed during the period** | **Outstanding as at 31 December 2010** |
| Advisors and consultants | 3.06* | 196,507* | – | – | 196,507* |

* Please refer to page 14 of this report.

** Please refer to page 14 of this report.

### Post-IPO Share Option Scheme

As at 31 December 2010, the share options to subscribe for an aggregate of 79,033,841 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 31 December 2010 are set out as follows:

| | | | Number of share options** | | | | |
|---|---|---|---|---|---|---|---|
| Category of participants | Exercise price per share** (HK$) | Date of grant | As at 1 January 2010 | Granted during the period | Exercised during the period | Lapsed during the period | Outstanding as at 31 December 2010 |
| Directors | 3.53* | 10 November 2006 | 883,841* | – | – | – | 883,841* |
| Directors | 0.61 | 13 May 2010 | – | 2,100,000 | – | – | 2,100,000 |
| Directors | 0.564 | 20 May 2010 | – | 650,000 | – | – | 650,000 |
| Directors | 0.48 | 29 September 2010 | – | 75,250,000 | – | – | 75,250,000 |
| Employees | 0.48 | 29 September 2010 | – | 250,000 | – | 100,000 | 150,000 |
| Total | | | 883,841 | 78,250,000 | – | 100,000 | 79,033,841 |

* Please refer to page 14 of this report.

** Please refer to page 14 of this report.

i New Share Option Scheme.

ii No share options were granted under the New Scheme during the year ended 31 December 2010.

## DIRECTORS' INTERESTS IN CONTRACTS

Pursuant to a sale and purchase agreement dated 16 August 2010 entered into between the Company as purchaser and Mr. Sin as vendor, the Company has acquired from Mr. Sin the property situated at Unit B, 2/F., 169 Wai Yip Street, Kwun Tong, Kowloon for a consideration of HK$6,480,000.

Pursuant to a sale and purchase agreement dated 18 November 2010 with Mr. Sin as a vendor and the Company as a purchaser, the company has purchased 51% of the shares in the capital, of each of Head Return Limited and Expand Pacific Limited at a consideration of HK$300,000,000 payable as to HK$30 million by cash, as to HK$148.5 million by issue of 135 million new Shares and as to HK$121.5 million by issue of the Convertible Bonds.

Save as disclosed herein, no contracts of significance to which the Company or any of its subsidiaries was a party and in which any Directors of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## RETIREMENT BENEFITS SCHEMES

Before 30 November 2000, the Group did not contribute to any retirement benefit scheme for either its employees or the Directors in Hong Kong. With effect from 1 December 2000, the Group had joined the Mandatory Provident Fund Scheme under the rules and regulations of the Mandatory Provident Fund Schemes Authority. The Group's employees in Hong Kong are required to join the scheme. The Group has followed the minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income.

The Group's subsidiary in the PRC, in compliance with the applicable regulations of the PRC, participated in social insurance schemes (including retirement benefit scheme, medical insurance scheme and unemployment benefit scheme) operated by the relevant local government authorities. The Group is required to make contribution to the social insurance schemes on behalf of employees who are registered permanent residents in the PRC. The insurance premium is borne by the Group and the employees on a specified proportion of the employees' salaries laid down under the relevant PRC law.

During the year, the employer's contributions to the retirement benefit scheme charged to the consolidated statement of comprehensive income amounted to approximately HK$139,000 (2009: HK$86,000).

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

During the year ended 31 December 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

## 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.

## MAJOR SUPPLIERS AND CUSTOMERS

The five largest customers of the Group accounted for approximately 93.1% of the Group's turnover for the year. The Group's largest customer accounted for approximately 79.4% of its turnover.

The five largest suppliers of the Group accounted for approximately 25.20% of the Group's purchases for the year. The Group's largest supplier accounted for approximately 8.77% of its purchases.

Save as disclosed above, none of the Directors, their respective associates nor shareholders (which to the knowledge of the Directors owned more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers at any time during the year.

## CORPORATE GOVERNANCE

The Company has complied with most of the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the year ended 31 December 2010. Please refer to the Corporate Governance Report on pages 19 to 25 for details.

## 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 year ended 31 December 2010.

## AUDIT COMMITTEE

The Company has established an Audit Committee in 2002 which now comprises three Independent Non-executive Directors, Mr. Chui Chi Yun Robert (Chairman), Mr. Chan Tin Lup Trevor and Dr. Wong Lung Tak Patrick.

During the year, the Audit Committee has met four times 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 has reviewed the audited financial results of the Group for the year ended 31 December 2010.

Please refer to the Corporate Governance Report on pages 20 to 25 for details.

## AUDITORS

The financial statements in respect of the previous two financial years were audited by Grant Thornton ("GTHK"), now known as JBPB & Co. Pursuant to a merger of the businesses of GTHK and BDO Limited ("BDO") to practice in the name of BDO as announced on 26 November 2010, GTHK resigned and BDO was appointed as auditors of the Company effective from 28 December 2010. The financial statements for the year ended 31 December 2010 were audited by BDO.

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO as auditor of the Company.

On behalf of the Board

**Tang Yat Ming Edward**
*CHIEF EXECUTIVE OFFICER*

Hong Kong, 25 March 2011

## CORPORATE GOVERNANCE PRACTICES

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

Under code provision A.4.2 of the Code and the Bye-laws, every director should be subject to retirement by rotation at least once every three years. According to Bye-law 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 less 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.

To the best knowledge of the Board, the Company has complied with most of the Code provisions during the year ended 31 December 2010.

## 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 as set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the "Code of Conduct").

Specific enquiry has been made with all Directors of the Company and the Directors have confirmed that they have complied with the required standard of dealings set out in the Code of Conduct throughout the year ended 31 December 2010.

## BOARD OF DIRECTORS

The Company has a balanced Board composition of Executive and Non-executive Directors. During the year ended 31 December 2010, the Board comprised eight members, three of whom were Executive Directors, two of whom were Non-executive Directors and three of whom were Independent Non-executive Directors:

**Chairman and Non-executive Director:**
Mr. Sin Kwok Lam

**Vice Chairman and Executive Director:**
Miss Law Po Yee

**Vice Chairman and Non-executive Director:**
Mr. Lam Kwok Hing Wilfred

**Executive Directors:**
Mr. Tang Yat Ming Edward
Mr. Li Sin Hung Maxim

**Independent Non-executive Directors:**
Mr. Chan Tin Lup Trevor
Mr. Chui Chi Yun Robert
Dr. Wong Lung Tak Patrick

The Board is responsible for the overall strategic planning and business development of the Group. It monitors the financial performance and internal controls of the Group's business operations. The day-to-day operations of the Company and implementation of business strategies are delegated to the management with department heads responsible for different aspects of the business.

The Board represents a mixture of expertise specializing in management, law, accounts and finance. All the Directors have comprehensive qualifications and experience as well as exposure to diversified business which are crucial to the business growth of the Group. With at least three of the Board members being Independent Non-executive Directors, the Board can effectively exercise independent judgement and advice to the management of the Company and can make decisions objectively for the best interests of the Company and all shareholders. Details of backgrounds and qualifications of each Director are set out in the section headed "Biographical Details of Directors" in this annual report.

To the best knowledge of the Board, there is no financial, business and family relationship among the members of the Board except that Mr. Sin Kwok Lam is Miss Law Po Yee's spouse, and Miss Sin Ho Yee is the daughter of Mr. Sin Kwok Lam.

Regular Board meetings are held at least four times each year at approximately quarterly intervals to discuss the Group's business development, operation and financial performance. Notice of at least 14 days is given to all Directors for all regular Board meetings to give all Directors an opportunity to attend.

All regular Board meetings adhere to a formal agenda in which a schedule of matters is addressed to the Board. All Directors have access to board papers and related materials, and are provided with sufficient information in order to make informed decisions on the matters to be discussed and considered at the Board meetings. Proper minutes of Board meetings are kept by the Company Secretary of the Company and are readily available for inspection by any Director upon request.

During the year ended 31 December 2010, a total of four Board meetings was held and the attendance record of each individual Board member at these Board meetings is set out in the following table:

| | **Directors' Attendance** |
|---|---|
| Mr. Sin Kwok Lam[1] | 0/2 |
| Miss Law Po Yee[2] | 2/2 |
| Mr. Lam Kwok Hing Wilfred[3] | 3/4 |
| Mr. Tang Yat Ming Edward[4] | 4/4 |
| Mr. Poon Shu Yan Joseph[5] | 2/4 |
| Mr. Li Sin Hung Maxim | 4/4 |
| Mr. Chui Chi Yun Robert | 4/4 |
| Mr. Chan Tin Lup Trevor | 4/4 |
| Dr. Wong Lung Tak Patrick[6] | 4/4 |

1 appointed on 31 May 2010

2 appointed on 5 August 2010

3 re-designated from Independent Non-executive Director to Non-executive Director on 3 February 2010

4 appointed on 16 December 2009

5 resigned on 15 November 2010

6 appointed on 3 February 2010

### Chairman and Chief Executive Officer

The Chairman of the Board and the Chief Executive Officer are held separately by two individuals with an aim to ensuring their respective independence and accountability as well as to maintaining a balance of power and authority. The Chairman, Mr. Sin Kwok Lam, is responsible for formulating the long-term strategies of the Group and overseeing its overall business development. The Chief Executive Officer, Mr. Tang Yat Ming Edward, is responsible for implementing the Group's business strategies and overseeing its day-to-day operations.

### Non-executive Directors

Under code provision A.4.1 of the Code, Non-executive Directors should be appointed for a specific term and subject to re-election. All the current Independent Non-executive Directors of the Company have been appointed for a specific term of one year and are subject to retirement by rotation in accordance with the Bye-laws of the Company.

At least one of the Independent Non-executive Directors has the appropriate professional qualifications or accounting or related financial management expertise as required under the GEM Listing Rules. The Company has received, from each of the Independent Non-executive Directors, an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and considers them to be independent.

### Appointment and Re-election of Directors

The Board is responsible for the appointment of any potential new directors and the nomination of directors for re-election by shareholders at the annual general meeting of the Company. In accordance with the Bye-laws of the Company, the Directors shall have the power from time to time and at any time to appoint any person as a director either to fill a casual vacancy on the Board or as an addition to the existing Board, whom is subject to retirement and re-election at the first annual general meeting after his appointment.

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 save any Director holding office as Chairman and/or Managing Director. The Board will ensure the retirement of each Director, other than the one who holds the office as Chairman and/or Managing Director, by rotation at least once every three years in order to comply with the Code provisions. The Chairman of the Company will not be subject to retirement by rotation as stipulated under code provision A.4.2 of the Code as the Board considers the continuity of office of the Chairman enables the Group to maintain a consistent leadership which is of crucial importance to the smooth operations of the Group.

## REMUNERATION COMMITTEE

The Company has established the Remuneration Committee in 2005. The Remuneration Committee currently comprises three members, Mr. Chui Chi Yun Robert (Chairman), Mr. Chan Tin Lup Trevor and Dr. Wong Lung Tak Patrick[1]. Three of them are Independent Non-executive Directors.

The major responsibilities of the Remuneration Committee include: (i) to recommend to the Board on the Company's policy and structure for all remuneration of directors and senior management and to establish a formal and transparent procedure for developing such remuneration policy; (ii) to review and determine the remuneration packages of the executive directors and senior management and to ensure that no director is involved in deciding his own remuneration; and (iii) to review and make recommendations to the Board about the overall remuneration policy of the Company.

The Remuneration Committee held two meetings during the year ended 31 December 2010 and the attendance record of these meetings is set out in the following table:

| | **Directors' Attendance** |
|---|---|
| Mr. Chui Chi Yun Robert *(Chairman)* | 2/2 |
| Mr. Chan Tin Lup Trevor | 2/2 |
| Dr. Wong Lung Tak Patrick | 2/2 |
| Mr. Lam Kwok Hing Wilfred[2] | 0/1 |

1 appointed on 3 February 2010

2 resigned from the committee on 12 May 2010

## AUDIT COMMITTEE

The Audit Committee was established in 2002. The Audit Committee currently comprises three members, Mr. Chui Chi Yun, Robert (Chairman), Mr. Chan Tin Lup Trevor and Dr. Wong Lung Tak Patrick[1]. Three of them are Independent Non-executive Directors.

The major responsibilities of the Audit Committee include: (i) to review the financial information of the Group such as annual and quarterly results prior to recommending to the Board's approval; (ii) to review and monitor financial reporting principles and practices; (iii) to recommend to the Board on the appointment and reappointment or removal of external auditors; and (iv) to oversee the financial reporting system and internal control procedures of the Group.

The Audit Committee held four meetings during the year ended 31 December 2010 and the attendance record of these meetings is set out in the following table:

| | **Directors' Attendance** |
|---|---|
| Mr. Chui Chi Yun Robert *(Chairman)* | 4/4 |
| Mr. Chan Tin Lup Trevor | 4/4 |
| Dr. Wong Lung Tak Patrick[1] | 4/4 |
| Mr. Lam Kwok Hing Wilfred[2] | 1/2 |

1 appointed on 3 February 2010

2 resigned from the committee on 12 May 2010

## FINANCIAL REPORTING

The Directors acknowledge their responsibility for preparing the financial statements for each financial period to give a true and fair view of the state of affairs of the Group. In preparing the financial statements for the year ended 31 December 2010, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis.

The statement of the external auditors of the Company regarding their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report, which is on pages 26 to 27 of this annual report.

## AUDITORS' REMUNERATION

During the year ended 31 December 2010, the Group had engaged Messrs. BDO Limited to provide the following services and their respective fees charged are set out below:

| | **Fee paid/payable**<br>HK$'000 |
|---|---|
| Audit services rendered | 380 |
| Non-audit services rendered | 81 |

## INTERNAL CONTROL

The Board has overall responsibility for the system of internal controls of the Company and for reviewing its effectiveness. In order to maintain a sound and effective internal control for safeguarding the Company's assets and shareholders' interests, the Board has adopted internal control policy and procedures (the "Internal Control") within the Company. The Internal Control is designed to provide reasonable assurance against misappropriate use of the Company's assets and to manage the Group's operational system in an efficient manner.

The Internal Control mainly covers areas of finance, operations and compliance. The Company shall conduct an annual review of the Internal Control to assess its effectiveness and shall make recommendations to the Board if any significant areas of concern are identified.

## COMMUNICATION WITH SHAREHOLDERS

The Board is committed to maintaining an ongoing and transparent communication with all shareholders. The Directors host annual general meeting each year to meet the shareholders and answer their enquiries. The Company uses various communication channels, such as publication of annual and quarterly reports, press announcements and circulars, to update the shareholders on the Group's business developments and financial performance. Such information is also available on the Company's website: http://www.nationalarts.hk.

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永安中心25樓

**To the shareholders of National Arts Holdings Limited**
**(formerly known as Vertex Group Limited)**
*(originally incorporated in the Cayman Islands and continued in Bermuda with limited liability)*

We have audited the consolidated financial statements of National Arts Holdings Limited (the "Company"') and its subsidiaries (together the "Group") set out on pages 28 to 107, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**BDO Limited**
*Certified Public Accountants*

**Li Wing Yin**
Practising Certificate Number P05035
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

Hong Kong, 25 March, 2011

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

| | Notes | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| **Revenue/Turnover** | 5 | **10,505** | 48 |
| Other operating income | | **452** | 265 |
| Direct operating and subcontracting costs | | **–** | (27) |
| Cost of film production | | **(26,567)** | – |
| Staff costs | 13 | **(12,462)** | (3,273) |
| Depreciation of property, plant and equipment | | **(1,137)** | (299) |
| Other operating expenses | | **(6,486)** | (4,139) |
| Finance costs | 7 | **(385)** | (907) |
| Gain on disposal of associate | 18 | **–** | 388 |
| **Loss before income tax** | 8 | **(36,080)** | (7,944) |
| Income tax expense | 9 | **–** | – |
| **Loss for the year from continuing operations** | | **(36,080)** | (7,944) |
| **DISCONTINUED OPERATIONS** | | | |
| **(Loss)/Profit for the year from discontinued operations** | 10 | **(327)** | 28,258 |
| **(Loss)/Profit for the year attributable to the owners of the Company** | 11 | **(36,407)** | 20,314 |
| **Other comprehensive income** | | | |
| Exchange differences on translation of financial statements of foreign operations | | **21** | (1) |
| **Other comprehensive income for the year** | | **21** | (1) |
| **Total comprehensive income for the year, attributable to the owners of the Company** | | **(36,386)** | 20,313 |
| | | **HK cents** | HK cents |
| **Basic (loss)/earnings per share for (loss)/profit attributable to the owners of the Company during the year (2009: As restated)** | 12 | | |
| From continuing operations | | **(8.57)** | (5.48) |
| From discontinued operations | | **(0.08)** | 19.49 |
| **From continuing and discontinued operations** | | **(8.65)** | 14.01 |
| **Diluted (loss)/earnings per share for (loss)/profit attributable to the owners of the Company during the year (2009: As restated)** | 12 | | |
| From continuing operations | | **N/A** | N/A |
| From discontinued operations | | **N/A** | N/A |
| **From continuing and discontinued operations** | | **N/A** | N/A |

# Consolidated Statement of Financial Position

As at 31 December 2010

| | Notes | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 15 | **17,168** | 236 |
| Goodwill | 17 | **8,974** | 8,974 |
| | | **26,142** | 9,210 |
| **Current assets** | | | |
| Film products | 19 | **3,933** | – |
| Film production in progress | 20 | **32,247** | 14,691 |
| Trade receivables | 21 | **2,656** | 9,581 |
| Prepayments, deposits and other receivables | | **3,645** | 1,420 |
| Financial assets at fair value through profit or loss | 22 | **2,136** | – |
| Pledged bank deposits | 23 | **–** | 200 |
| Cash and cash equivalents | 23 | **160,827** | 6,277 |
| | | **205,444** | 32,169 |
| **Current liabilities** | | | |
| Trade payables | 24 | **2,067** | 11,226 |
| Other payables and accruals | | **7,282** | 3,440 |
| Amounts due to related companies | 25 | **–** | 16,256 |
| Bank borrowings | 30 | **3,735** | – |
| Provision for income tax | | **8** | 8 |
| | | **13,092** | 30,930 |
| **Net current assets** | | **192,352** | 1,239 |
| **Net assets** | | **218,494** | 10,449 |
| **EQUITY** | | | |
| **Equity attributable to the owners of the Company** | | | |
| Share capital | 31 | **6,658** | 11,896 |
| Reserves | 32 | **211,836** | (1,447) |
| **Total equity** | | **218,494** | 10,449 |

| | |
|---|---|
| *Director* | *Director* |
| **Tang Yat Ming Edward** | **Sin Kwok Lam** |

# Statement of Financial Position

As at 31 December 2010

| | Notes | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 15 | **245** | 78 |
| Interests in subsidiaries | 16 | **9,010** | 9,000 |
| | | **9,255** | 9,078 |
| **Current assets** | | | |
| Prepayments, deposits and other receivables | | **721** | 470 |
| Financial assets at fair value through profit or loss | 22 | **2,136** | – |
| Amounts due from subsidiaries | 26 | **56,728** | 8,100 |
| Cash and cash equivalents | 23 | **150,929** | 3,342 |
| | | **210,514** | 11,912 |
| **Current liabilities** | | | |
| Other payables and accruals | | **1,028** | 872 |
| Amounts due to related companies | 25 | **–** | 12,603 |
| Amounts due to subsidiaries | 27 | **1,088** | 1,088 |
| | | **2,116** | 14,563 |
| **Net current assets/(liabilities)** | | **208,398** | (2,651) |
| **Net assets** | | **217,653** | 6,427 |
| **EQUITY** | | | |
| Share capital | 31 | **6,658** | 11,896 |
| Reserves | 32 | **210,995** | (5,469) |
| **Total equity** | | **217,653** | 6,427 |

*Director*
**Tang Yat Ming Edward**

*Director*
**Sin Kwok Lam**

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

| | Equity attributable to the owners of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** HK$'000 | **Share premium** HK$'000 | **Special reserve** HK$'000 (note 32) | **Warrant reserve** HK$'000 (note 32) | **Translation reserve** HK$'000 | **Share option reserve** HK$'000 | **Contributed surplus** HK$'000 (note 32) | **Accumulated losses** HK$'000 | **Total** HK$'000 |
| At 1 January 2009 | 6,151 | 116,548* | 1,000* | 1,750* | 288* | 2,279* | – | (188,279)* | (60,263) |
| Employee share-based compensation | – | – | – | – | – | 6 | – | – | 6 |
| Share issued under share placements | 2,190 | 18,102 | – | – | – | – | – | – | 20,292 |
| Share issued under open offer | 3,555 | 28,444 | – | – | – | – | – | – | 31,999 |
| Share issue expenses | – | (1,898) | – | – | – | – | – | – | (1,898) |
| Transactions with owners | 5,745 | 44,648 | – | – | – | 6 | – | – | 50,399 |
| Profit for the year | – | – | – | – | – | – | – | 20,314 | 20,314 |
| Other comprehensive income | | | | | | | | | |
| Exchange differences on translation of financial statements of foreign operations | – | – | – | – | (1) | – | – | – | (1) |
| Total comprehensive income for the year | – | – | – | – | (1) | – | – | 20,314 | 20,313 |
| Transfer of lapsed warrants to accumulated losses | – | – | – | (1,750) | – | – | – | 1,750 | – |
| At 31 December 2009 | 11,896 | 161,196* | 1,000* | – | 287* | 2,285* | – | (166,215)* | 10,449 |
| At 1 January 2010 | 11,896 | 161,196 | 1,000 | – | 287 | 2,285 | – | (166,215) | 10,449 |
| Employee share-based compensation | – | – | – | – | – | 8,496 | – | – | 8,496 |
| Share issued under open offer | 35,689 | 71,378 | – | – | – | – | – | – | 107,067 |
| Share issued under placing of new shares | 10,450 | 126,350 | – | – | – | – | – | – | 136,800 |
| Share issue expenses | – | (7,932) | – | – | – | – | – | – | (7,932) |
| Transactions with owners | 46,139 | 189,796 | – | – | – | 8,496 | – | – | 244,431 |
| Loss for the year | – | – | – | – | – | – | – | (36,407) | (36,407) |
| Other comprehensive income | | | | | | | | | |
| Exchange differences on translation of financial statements of foreign operations | – | – | – | – | 21 | – | – | – | 21 |
| Total comprehensive income for the year | – | – | – | – | 21 | – | – | (36,407) | (36,386) |
| Capital reduction (note 31(c)) | (51,377) | – | – | – | – | – | 51,377 | – | – |
| Transfer of share premium to contributed surplus | – | (228,710) | – | – | – | – | 228,710 | – | – |
| Transfer of accumulated losses to contributed surplus | – | – | – | – | – | – | (201,296) | 201,296 | – |
| Transfer of lapsed options to accumulated losses | – | – | – | – | – | (1,326) | – | 1,326 | – |
| **At 31 December 2010** | **6,658** | **122,282*** | **1,000*** | **–** | **308*** | **9,455*** | **78,791*** | **–*** | **218,494** |

* *The aggregate amount of these balances of HK$211,836,000 (2009: deficit of HK$1,447,000) in surplus is included as reserves in the consolidated statement of financial position.*

# Consolidated Statement of Cash Flows

For the year ended 31 December 2010

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| (Loss)/Profit before income tax, including (loss)/profit from discontinued operations | **(36,407)** | 20,314 |
| Adjustments for: | | |
| Finance costs | **385** | 2,519 |
| Interest income | **(1)** | – |
| Allowances for bad and doubtful debts in respect of: | | |
| – Trade receivables | **–** | 1,006 |
| – Other receivables | **–** | 1,901 |
| Write off of other receivables | **46** | – |
| Write off of other payables | **(106)** | – |
| Amortisation of film product | **21,817** | – |
| Impairment of film product | **4,750** | – |
| Depreciation of property, plant and equipment | **1,137** | 299 |
| Change in fair value of convertible bonds | **–** | 4,310 |
| Change in fair value of financial assets at fair value through profit or loss | **(208)** | – |
| Loss on disposal of property, plant and equipment | **91** | 364 |
| Gain on disposals of associate | **–** | (388) |
| Gain on disposals of subsidiaries | **–** | (37,185) |
| Equity settled share-based payment expenses | **8,496** | 6 |
| Operating cash flows before movements in working capital | **–** | (6,854) |
| Increase in film production in progress | **(48,056)** | (14,691) |
| Decrease in trade receivables | **6,879** | 1,517 |
| Increase in prepayments, deposits and other receivables | **(2,225)** | (123) |
| Payment of financial assets at fair value through profit or loss | **(1,928)** | – |
| Decrease in trade payables | **(9,159)** | (1,420) |
| Increase in other payables and accruals | **407** | 886 |
| Net cash used in operating activities | **(54,082)** | (20,685) |
| **Cash flows from investing activities** | | |
| Decrease in pledged bank deposits | **200** | – |
| Interest received | **1** | – |
| Purchases of property, plant and equipment | **(18,163)** | (272) |
| Disposals of subsidiaries (note 37) | **–** | (24) |
| Proceeds from disposals of associate | **–** | 388 |
| Acquisition of subsidiaries (note 38) | **–** | (8,044) |
| Proceeds from disposals of property, plant and equipment | **3** | – |
| Net cash used in investing activities | **(17,959)** | (7,952) |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2010

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| **Cash flows from financing activities** | | |
| (Repayment to)/Advance from related companies | (12,715) | 994 |
| Interest paid | (385) | (2,519) |
| Receipts of short-term borrowings | 23,960 | 22,000 |
| Repayment of short-term borrowings | (20,225) | (22,000) |
| Repayment of secured bond | – | (15,566) |
| Proceeds from placing of new shares and shares under open offer | 243,867 | 52,291 |
| Share issue expenses | (7,932) | (1,898) |
| Net cash generated from financing activities | 226,570 | 33,302 |
| **Increase in cash and cash equivalents** | 154,529 | 4,665 |
| **Cash and cash equivalents at 1 January** | 6,277 | 1,613 |
| **Effect of foreign exchange rate changes** | 21 | (1) |
| **Cash and cash equivalents at 31 December** (note 23) | 160,827 | 6,277 |

## 1. GENERAL INFORMATION

National Arts Holdings Limited (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.

On 15 March 2010, a special resolution was passed at the extraordinary general meeting of the Company to approve the change of the Company name from "Vertex Group Limited" to "National Arts Holdings Limited" and its new Chinese name "國藝控股有限公司" will be adopted to replace "慧峰集團有限公司" with effect from 9 April 2010.

The Company's principal place of business in Hong Kong was changed from Room 905-906, Far East Consortium Building, 121 Des Voeux Road Central, Hong Kong to Unit B, 2/F, Jone Mult Industrial Building, 169 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong, with effect from 17 May 2010.

The Company's shares are listed on The Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is principally engaged in investment holding. Details of the principal activities of its subsidiaries are set out in note 16 to the consolidated financial statements. The Company and its subsidiaries are referred to as the Group hereafter.

The consolidated financial statements on pages 28 to 107 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collectively includes all applicable individual Hong Kong Financial Reporting Standard, Hong Kong Accounting Standard ("HKAS") and Interpretation ("Int") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The consolidated financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The GEM of the Stock Exchange (the "GEM Listing Rules").

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

The consolidated financial statements for the year ended 31 December 2010 were approved for issue by the board of directors on 25 March 2011.

## 2. ADOPTION OF NEW OR AMENDED HKFRSs

In the current year, the Group has applied for the first time, the following new standards, interpretations and amendments (the "New HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2010:

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs |
| Amendments to HKAS 39 | Eligible Hedged Items |
| Amendments to HKFRS 2 | Share-based Payment – Group Cash-settled Share-based Payment Transactions |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements |
| HKFRS 3 (Revised) | Business Combinations |
| HK(IFRIC) – Int 17 | Distributions of Non-cash Assets to Owners |
| HK Int 5 | Presentation of financial statements – classification by Borrower of a Term Loan that contains a repayment on demand Clause |

Except for as explained below, the adoption of these New HKFRSs has no significant impact on the Group's financial statements.

### HKAS 17 (Amendments) Leases

As part of Improvements to HKFRSs issued in 2009, HKAS 17 has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the statement of financial position. The amendment to HKAS 17 has removed such a requirement and requires that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee. The Group has assessed the classification of unexpired leasehold land acquired during current year on the basis of information existing at the inception of those leases, and recognised the leasehold land in Hong Kong as finance lease accordingly. As at 31 December 2010, the Group had classified the leasehold land in Hong Kong of HK$12,636,000 and this amendment had no impact on the Group's retained earnings and current year results.

## 2. ADOPTION OF NEW OR AMENDED HKFRSs *(Continued)*

**HKFRS 3 (Revised) – Business Combinations and HKAS 27 (Revised) – Consolidated and Separate Financial Statements**

The revised accounting policies are described in note 3.2 to the financial statement, which are effective prospectively for business combinations effected in financial periods beginning on or after 1 July, 2009. Changes in HKFRS 3 include the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes impact the amount of goodwill and the results in the period that an acquisition occurs and future results. The adoption of revised HKFRS 3 has had no impact to the financial statements as there has been no business combination transaction during the year.

The revised HKAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners, accordingly, such transactions are recognised within equity. When control is lost and any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss.

**HK Int 5 – Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause**

The Interpretation is a clarification of an existing standard, HKAS 1 Presentation of Financial Statements. It sets out the conclusion reached by the HKICPA that a term loan which contains a clause which gives the lender the unconditional right to demand repayment at any time shall be classified as a current liability in accordance with paragraph 69(d) of HKAS 1 irrespective of the probability that the lender will invoke the clause without cause.

In order to comply with the requirements of HK Int 5, the Group has applied this accounting policy on the classification of term loans that contain a repayment on demand clause. Under this policy, term loans with clauses which give the lender the unconditional right to call the loan at any time are classified as current liabilities in the statement of financial position.

The following new and revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs 2010[2&3] |
| Amendments to HKAS 32 | Classification of Rights Issues[1] |
| HK(IFRIC) – Int 19 | Extinguishing Financial Liabilities with Equity Instruments[2] |
| HKAS 24 (Revised) | Related Party Disclosures[3] |
| HKFRS 9 | Financial Instruments[4] |

1 Effective for annual periods beginning on or after 1 February, 2010
2 Effective for annual periods beginning on or after 1 July, 2010
3 Effective for annual periods beginning on or after 1 January, 2011
4 Effective for annual periods beginning on or after 1 January, 2013

## 2. ADOPTION OF NEW OR AMENDED HKFRSs *(Continued)*

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

The Group is in the process of making an assessment of the potential impact of these new and revised HKFRSs and the board so far concluded that the application of these new and revised HKFRSs will have no material impact on the Group's financial statements.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Basis of preparation

The significant accounting policies that have been used in the preparation of the consolidated financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

The consolidated financial statements have been prepared under historical cost convention except for certain financial instruments which are stated at fair value. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the consolidated financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

### 3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (see note 3.3 below) made up to 31 December each year.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases. The results of the subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of the disposal, as appropriate.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.2 Basis of consolidation *(Continued)*

***Business combination and changes in the Group's interests in subsidiaries on or after 1st January, 2010***

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interest either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date the control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.2 Basis of consolidation *(Continued)*

***Business combination and changes in the Group's interests in subsidiaries on or after 1st January, 2010*** *(Continued)*

Subsequent to acquisition, the carrying amount of non-controlling interest is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

***Business combination and changes in the Group's interests in subsidiaries prior to 1st January, 2010***

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connected with business combinations were capitalised as part of the cost of the acquisition.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group are recognised profit or loss. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.3 Subsidiaries

Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's statement of financial position, subsidiaries are carried at cost less impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date.

### 3.4 Goodwill

Set out below are the accounting policies on goodwill arising on acquisition of a subsidiary. Goodwill represents the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests over the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. The consideration transferred is measured at the aggregate of the fair values, at the acquisition date of assets given, liabilities incurred or assumed, and equity instruments issued by the Group.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 3.8).

Any excess of the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the aggregate of consideration transferred and the amount recognised for non-controllig interests is recognised immediately in profit or loss.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.5 Foreign currency translation

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into HK$. Assets and liabilities have been translated into HK$ at the closing rates at the reporting date. Income and expenses have been converted into HK$ at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the translation reserve in equity.

When a foreign operation is disposed of, such exchange differences are reclassified from equity to profit or loss as part of the gain or loss on disposal.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.6 Revenue recognition

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

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 receipts.

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.

Artiste management fee income and revenue from rendering of services are recognised when the agreed services are rendered.

Income derived from provision of network infrastructure, electrical installation and digital solution services is recognised and determined using 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.

Interest income is recognised on time-proportion basis using effective interest method.

Dividend income from investments is recognised when the right to receive payment is established.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.7 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

| | |
|---|---|
| Leasehold land | Over the lease term |
| Buildings | over the shorter of the lease term or $3^1/_3$% |
| Leasehold improvements | over the shorter of the lease term or 20% |
| Furniture, fixtures and office equipment | 20% |
| Motor vehicles | 20% |

The assets' estimated useful lives and residual values are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged as an expense during the financial period in which they are incurred.

### 3.8 Impairment of non-financial assets

The following assets are subject to impairment testing:

– Goodwill arising on acquisition of a subsidiary;

– Film products and film production in progress;

– Property, plant and equipment; and

– The Company's interests in subsidiaries.

Goodwill is tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.8 Impairment of non-financial assets *(Continued)*

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.9 Film products and film production in progress

***Film products***

Film products are completed films produced by the Group.

Film products, less estimated residual value and accumulated amortisation, are amortised in proportion to the estimated projected revenues over their economic beneficial period subject to a maximum of 10 years. Additional amortisation/impairment loss is made if future estimated projected revenues are adversely different from the previous estimation. Estimated projected revenues are reviewed at regular intervals.

***Film production in progress***

Film production in progress is stated at cost less any impairment losses (note 3.8). Costs include all direct costs associated with the production of films such as direct labour costs, cost of services, facilities and raw materials consumed in the creation of a film. Upon completion, these films under production are reclassified as film products. Film production in progress is accounted for on a film-by-film basis. Impairment losses are made for costs which are in excess of the expected future revenue generated by these films.

### 3.10 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged as an expense on a straight-line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are recognised as income in the accounting period in which they are incurred.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.11 Financial assets

The Group's accounting policies for financial assets other than investments in subsidiaries are set out below.

The Group's financial assets are classified into financial assets at fair value through profit or loss and loans and receivables.

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

At each reporting date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

***(i) Financial assets at fair value through profit or loss***

The Group's financial assets at fair value through profit or loss represent financial assets held for trading.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term, or it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in profit or loss. Fair value is determined by reference to active market transactions or using a valuation technique where no active market exists. Fair value gain or loss does not include any dividend or interest earned on these financial assets. Dividend and interest income is recognised in accordance with the Group's policies in note 3.6 to these consolidated financial statements.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.11 Financial assets *(Continued)*

#### *(ii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

#### *Impairment of financial assets*

At each reporting date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial asset includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.11 Financial assets *(Continued)*

***Impairment of financial assets (Continued)***

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss in the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss during the period in which the reversal occurs.

Financial assets other than financial assets at fair value through profit or loss and trade receivables that are stated at amortised cost, impairment losses are written off against the corresponding assets directly. Where the recovery of trade receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of trade receivables is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.12 Accounting for income taxes

Income tax comprises current and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly to equity.

Current tax assets and current tax liabilities are presented in net if, and only if,

(a) the Group has the legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.12 Accounting for income taxes *(Continued)*

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

(i) the same taxable entity; or

(ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

### 3.13 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand as well as short term bank deposits with original maturities of three months or less which are subject to insignificant risk of changes in value.

### 3.14 Share capital and share premium

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Share premium includes any premiums received on the issuance of shares over the par value. Any transaction costs associated with the issuance of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.15 Retirement benefit costs and short-term employee benefits

***Retirement benefit costs***

Retirement benefits to employees are provided through defined contribution plans. The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries or the maximum mandatory contribution as required by the MPF Scheme and are charged to the statement of comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Company's subsidiary which operates in the PRC, except Hong Kong are required to participate in the employee retirement scheme operated by the relevant local government bureau in the PRC and to make contributions for their eligible employees. The contributions payable by the subsidiary are calculated based on a certain percentage of the salaries and wages of those eligible employees and are recognised as an expense during the period to which they relate.

***Short-term employee benefits***

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.16 Share-based employee compensation

All share-based payment arrangements granted after 7 November 2002 and had not vested on 1 January 2005 are recognised in the consolidated financial statements. The Group operates equity-settled share-based compensation plans for remuneration of its employees and directors.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions.

All share-based compensation is ultimately recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in share options reserve. If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally vested.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are later forfeited or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated losses.

### 3.17 Financial liabilities

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs (see note 3.18).

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.17 Financial liabilities *(Continued)*

***Borrowings***

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using effective interest method.

***Convertible bonds at fair value through profit or loss***

Convertible bonds that will or may not be settled by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments are accounted for as financial liabilities with embedded derivatives. Derivatives embedded in a financial instrument are treated as separate derivatives when their economic risk and characteristics are not closely related to those of the host contract (the liability component) and the host contract is not carried at fair value through profit or loss. The convertible bonds with embedded derivatives that are not closely related to the host debt contract are designated as a whole as financial liabilities at fair value through profit or loss. At each reporting date subsequent to initial recognition, the entire convertible bond is measured at fair value with changes in fair value recognised directly in profit or loss during the period in which they arise.

Transaction costs that are directly attributable to the issuance of the convertible bonds designated as financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial liabilities may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

– the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; or

– the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or

– the financial liability contains an embedded derivative that would need to be separately recorded.

***Other financial liabilities***

Other financial liabilities (including trade and other payables, accruals and amounts due to related/group companies) are recognised initially at fair value and subsequently measured at amortised cost, using effective interest method.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.18 Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

### 3.19 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisaton, if appropriate.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.20 Related parties

For the purpose of these consolidated financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of the key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close member of the family of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

### 3.21 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 3.22 Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when the operation is abandoned.

When an operation is classified as discontinued, a single amount is presented on the face of the consolidated statement of comprehensive income, which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

### Impairment test of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 3.4. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

### Allowance for and write off of irrecoverable receivables

The Group's management determines the allowance for irrecoverable receivables on a regular basis. A considerable amount of judgement is required in assessing the ultimate realisation of the outstanding receivables. These estimates are based on the credit history of its customers and current market conditions. When the Group's management determines that there are indicators of significant financial difficulties of the debtors such as default or delinquency in payments, allowance for debtors are estimated. The management of the Group reassesses the estimations at the reporting date. When the Group's management determines the debtors are uncollectible, they are written off against the allowance account for debtors. Any amount held in the allowance account in respect of those debtors is reversed.

### Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. They are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows.

### Estimated impairment loss on film products and film production in progress

Management regularly reviews the recoverability of the Group's film products and film production in progress with reference to their estimated future revenue less the relevant costs based on their intended future use and current market environment. Impairment for estimated irrecoverable amounts are recognised in the consolidated statement of comprehensive income when there is objective evidence that the asset is impaired. In determining whether impairment on film products and film production in progress is required, the Group takes into consideration the present value of future cash flows expected to be received.

## 5. REVENUE/TURNOVER

Revenue, which is also the Group's turnover, derived from the Group's principal activities recognised during the year is as follows:

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Films production income | 9,742 | – | – | – | 9,742 | – |
| Artiste management fee income | 763 | 24 | – | – | 763 | 24 |
| Network infrastructure and electrical installation services income | – | – | 375 | 5,446 | 375 | 5,446 |
| Service income from digital solution services | – | 24 | – | – | – | 24 |
| Income from publication of print media – Sales of magazines | – | – | – | 1 | – | 1 |
| | 10,505 | 48 | 375 | 5,447 | 10,880 | 5,495 |

## 6. SEGMENT INFORMATION

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

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

One operation (Network infrastructure and electrical installation services) has been discontinued in the current year (2009: two operations – the energy consultancy services and energy resources procurement). The segment information reported in the following does not include any amounts for these discontinued operations, which are described in more details in note 10.

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

## 6. SEGMENT INFORMATION *(Continued)*

### Segment revenues and results

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

| | Segment revenue | | Segment profit/(loss) | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Films production and distribution and artiste management | **10,505** | 24 | **(16,410)** | (588) |
| Digital solution services | **–** | 24 | **–** | 8 |
| Total for continuing operations | **10,505** | 48 | **(16,410)** | (580) |
| Other operating income | | | **452** | 265 |
| Gain on disposals of associate | | | **–** | 388 |
| Unallocated corporate expenses | | | **(19,737)** | (7,110) |
| Finance costs | | | **(385)** | (907) |
| Loss before income tax from continuing operations | | | **(36,080)** | (7,944) |

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales during the year (2009: Nil).

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

## 6. SEGMENT INFORMATION *(Continued)*

### Segment assets and liabilities

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| **Segment assets** | | |
| Films production and distribution and artiste management | 60,438 | 24,175 |
| Digital solution services | 44 | 46 |
| Total segment assets | 60,482 | 24,221 |
| Unallocated | 171,104 | 17,158 |
| Consolidated assets | 231,586 | 41,379 |
| **Segment liabilities** | | |
| Films production and distribution and artiste management | (951) | (522) |
| Digital solution services | (92) | (810) |
| Total segment liabilities | (1,043) | (1,332) |
| Unallocated | (12,049) | (29,598) |
| Consolidated liabilities | (13,092) | (30,930) |

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.

## 6. SEGMENT INFORMATION *(Continued)*

### Other segment information

| | Depreciation and amortisation | | Additions to non-current assets | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Films production and distribution and artiste management | **180** | – | **2,004** | – |
| | **180** | – | **2,004** | – |

### Geographical information

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

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.

### Information about major customer

Included in the revenues arising from provision of film production and distribution and artiste management are revenues of approximately HK$8,634,000 (2009: Nil) which arose from film products distribution from the Group's largest customer.

## 7. FINANCE COSTS

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Interest on secured bonds wholly repayable within five years and not stated at fair value through profit or loss | **–** | 97 | **–** | – | **–** | 97 |
| Interest on short term borrowings | **360** | 810 | **–** | – | **360** | 810 |
| Interest on secured bank borrowings wholly repayable within five years | **25** | – | **–** | – | **25** | – |
| Interest on convertible bonds wholly repayable within five years | **–** | – | **–** | 1,612 | **–** | 1,612 |
| | **385** | 907 | **–** | 1,612 | **385** | 2,519 |

## 8. LOSS BEFORE INCOME TAX

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Loss before income tax is arrived at after charging/(crediting): | | | | | | |
| Allowances for bad and doubtful debts in respect of: | | | | | | |
| – Trade receivables | **–** | 13 | **–** | 993 | **–** | 1,006 |
| – Other receivables | **–** | 235 | **–** | 1,666 | **–** | 1,901 |
| Write off of other payables | **(106)** | – | **–** | – | **(106)** | – |
| Write off of other receivables | **–** | – | **46** | – | **46** | – |
| Auditors' remuneration | **380** | 350 | **–** | – | **380** | 350 |
| Direct operating and subcontracting costs | **–** | 27 | **627** | 4,830 | **627** | 4,857 |
| Amortisation of film products | **21,817** | – | **–** | – | **21,817** | – |
| Impairment of film products | **4,750** | – | **–** | – | **4,750** | – |
| Loss on disposal of property, plant and equipment | **91** | 364 | **–** | – | **91** | 364 |
| Minimum lease payments under operating leases in respect of rented premises | **827** | 1,240 | **–** | – | **827** | 1,240 |
| Bank interest income | **(1)** | – | **–** | – | **(1)** | – |
| Depreciation of property, plant and equipment | **1,137** | 299 | **–** | – | **1,137** | 299 |
| Change in fair value of financial assets at fair value through profit or loss | **(208)** | – | **–** | – | **(208)** | – |

## 9. INCOME TAX EXPENSE

No Hong Kong profits tax has been provided as the Group had no estimated assessable profits arising in or derived from Hong Kong for both years. PRC foreign enterprise income tax has not been provided as the PRC subsidiary incurred a loss for taxation purposes for both years.

Reconciliation between income tax expense and accounting (loss)/profit at applicable tax rates is as follows:

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| (Loss)/Profit before income tax | | |
| – Continuing operations | (36,080) | (7,944) |
| – Discontinued operations | (327) | 28,258 |
| | (36,407) | 20,314 |
| Tax at the applicable tax rates | (6,018) | 3,311 |
| Tax effect of non-deductible expenses | 2,176 | 2,433 |
| Tax effect of non-taxable revenue | (13) | (6,231) |
| Tax effect of unrecognised tax losses | 4,420 | 477 |
| Tax effect of utilisation of tax losses previously not recognised | – | (31) |
| Tax effect of temporary difference not recognised | (314) | 41 |
| Over provision for prior year | (251) | – |
| Income tax expense | – | – |

At the reporting date, the Group and the Company had unused estimated tax losses of approximately HK$203,595,000 (2009: HK$176,807,000) and approximately HK$45,154,000 (2009: HK$44,971,000) respectively, which was available for offsetting against future taxable profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Under the current tax legislation, the tax losses can be carried forward indefinitely.

At the reporting date, the Group and the Company did not have any significant unrecognised deferred tax liabilities (2009: Nil).

## 10. DISCONTINUED OPERATIONS

### 10.1 Discontinuance of network infrastructure and electrical installation services

Pursuant to the board of directors' meeting of the Company held on 31 December 2010, it was resolved that the business segment of network infrastructure and electrical installation services of the Group would be discontinued with effect from 31 December 2010 due to the Group's long term strategy to focus its activities in the film production and artistes management services.

### 10.2 Disposals of energy consultancy and energy resources procurement operations

On 11 November 2009, the Company entered into a sale and purchase agreement with Forever Triumph Limited to dispose of its 100% equity interests in Vertex CDM Limited and its subsidiaries (the "Vertex CDM Group") which carried out all of the Group's provision of energy consultancy services and energy resources procurement, at a cash consideration of HK$200,000 (the "Disposal"). The Disposal is consistent with the Group's long-term strategy to focus its activities in the film production and artistes management services. The Disposal was completed on 11 November 2009, on which date control of the Vertex CDM Group was passed to the acquirer. The Disposal constituted a related party transaction as the respective purchasers are controlled by Dr. Poon Kwok Lim, Steven ("Dr. Poon"), former chairman and executive director of the Company who resigned on 19 May 2009. Dr. Poon is the father of Mr. Poon Shu Yan, Joseph, a former executive director and chief executive officer of the Company who resigned on 15 November 2010.

The results of the discontinued operations (i.e. network infrastructure and electrical installment services and energy consultancy and energy resources procurement) (the "Discontinued Operations) included in the consolidated statement of comprehensive income and the consolidated statement of cash flow is set out below. The comparative profit and cash flows from the discontinued operations have been re-presented to include those operations classified as discontinued in the current year.

## 10. DISCONTINUED OPERATIONS *(Continued)*

| | 2010<br>HK$'000 | 2009<br>HK$'000<br>(Restated) |
|---|---|---|
| **(Loss)/Profit for the year from the discontinued operations** | | |
| Revenue/Turnover (note 5) | 375 | 5,447 |
| Other operating income | – | 99 |
| Royalty and production costs | – | (6) |
| Direct operating and subcontracting costs | (627) | (4,830) |
| Staff costs | (18) | (620) |
| Other operating expenses | (57) | (3,095) |
| Finance costs (note 7) | – | (1,612) |
| Change in fair value of convertible bonds (note 28) | – | (4,310) |
| Loss before income tax | (327) | (8,927) |
| Income tax expense | – | – |
| | (327) | (8,927) |
| Gain on disposals of subsidiaries (note 37) | – | 37,185 |
| **(Loss)/Profit for the year from the Discontinued Operations** | (327) | 28,258 |
| **Cash flows used in discontinued operations** | | |
| Net cash used in operating activities | (211) | (328) |
| Net cash outflow | (211) | (328) |

## 11. (LOSS)/PROFIT FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

The consolidated (loss)/profit attributable to the owners of the Company for the year includes a loss of HK$33,205,000 (2009: HK$1,695,000) which has been dealt with in the financial statements of the Company.

## 12. (LOSS)/EARNINGS PER SHARE

### Basic (loss)/earnings per share from continuing and discontinued operations

The calculation of basic (loss)/earnings per share is based on the loss attributable to the owners of the Company of HK$36,407,000 (2009: profit of HK$20,314,000) and the weighted average of 420,893,702 (2009: 144,983,903 as restated) ordinary shares in issue during the year, as adjusted for the effect of the issuance of new shares pursuant to the open offer and share consolidation during the year and as if the event had occurred at the beginning of the earlier period reported.

### Basic loss per share from continuing operations

The calculation of basic loss per share from continuing operations is based on the loss for the year from continuing operations of HK$36,080,000 (2009: HK$7,944,000) and the weighted average number of 420,893,702 (2009: 144,983,903 as restated) ordinary shares in issue during the year, as adjusted for the effect of the issuance of new shares pursuant to the open offer and share consolidation during the year and as if the event had occurred at the beginning of the earlier period reported.

### Basic (loss)/earnings per share from discontinued operations

The calculation of basic (loss)/earnings per share attributable to the owners of the Company from the Discontinued Operations is based on the loss for the year attributable to the owners of the Company of HK$327,000 (2009: profit of HK$28,258,000 as restated) and the weighted average number of 420,893,702 (2009: 144,983,903 as restated) ordinary shares in issue during the year as adjusted for the effect of the issuance of new shares pursuant to the open offer and share consolidation during the year and as if the event had occurred at the beginning of the earlier period reported.

### Diluted (loss)/earnings per share from continuing and/or discontinued operations

Diluted (loss)/earnings per share for continuing and/or discontinued operations for the year ended 31 December 2009 and 2010 is not presented because the impact of the exercise of the share options and warrants are anti-dilutive.

## 13. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Salaries and allowances | 3,827 | 3,194 | 18 | 607 | 3,845 | 3,801 |
| Equity settled share-based payment expenses | 8,496 | 6 | – | – | 8,496 | 6 |
| Retirement benefit costs | 139 | 73 | – | 13 | 139 | 86 |
| | 12,462 | 3,273 | 18 | 620 | 12,480 | 3,893 |

## 14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

### 14.1 Directors' emoluments

| | Fees | Salaries and allowances | Equity-settled share-based payment expenses | Retirement benefit costs | Total |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Year ended 31 December 2010** | | | | | |
| *Executive directors* | | | | | |
| Ms. Law Po Yee[1] | – | 206 | 2,548 | 3 | 2,757 |
| Mr. Poon Shu Yan Joseph[2] | 105 | – | 11 | – | 116 |
| Mr. Li Sin Hung Maxim | 120 | – | 17 | – | 137 |
| Mr. Tang Yat Ming | – | 520 | 78 | 12 | 610 |
| *Non-executive directors* | | | | | |
| Mr. Sin Kwok Lam[3] | – | 642 | 5,096 | 6 | 5,744 |
| Mr. Lam Kwok Hing Wilfred[5] | 36 | – | 636 | – | 672 |
| *Independent non-executive directors* | | | | | |
| Mr. Chan Tin Lup Trevor | 36 | – | 23 | – | 59 |
| Mr. Chui Chi Yun Robert | 36 | – | 39 | – | 75 |
| Mr. Wong Lung Tak Patrick[4] | 34 | – | 23 | – | 57 |
| | 367 | 1,368 | 8,471 | 21 | 10,227 |

## 14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

### 14.1 Directors' emoluments *(Continued)*

| | Fees HK$'000 | Salaries and allowances HK$'000 | Retirement benefit costs HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Year ended 31 December 2009 | | | | |
| *Executive directors* | | | | |
| Dr. Poon Kwok Lim, Steven[6] | 38 | 302 | – | 340 |
| Mr. Poon Shu Yan, Joseph | 33 | 351 | 6 | 390 |
| Mr. Li Sin Hung, Maxim[7] | 11 | 86 | 3 | 100 |
| Mr. Yum Pui[8] | 11 | 83 | 3 | 97 |
| Mr. Tang Yat Ming[9] | – | 21 | 1 | 22 |
| *Independent non-executive directors* | | | | |
| Mr. Tam Tak Wah[10] | 87 | – | – | 87 |
| Mr. Tsui Yiu Wa, Alec[11] | 67 | – | – | 67 |
| Mr. Yeung Pak Sing[11] | 67 | – | – | 67 |
| Mr. Chan Tin Lup, Trevor[7] | 18 | – | – | 18 |
| Mr. Chui Chi Yun, Robert[7] | 18 | – | – | 18 |
| Mr. Lam Kwok Hing, Wilfred[5] | 18 | – | – | 18 |
| | 368 | 843 | 13 | 1,224 |

Note:

1. Appointed on 5 August 2010
2. Resigned on 15 November 2010
3. Appointed as an executive director on 31 May 2010 and re-designated as a non-executive director on 26 October 2010
4. Appointed on 3 February 2010
5. Appointed on 13 May 2009 and re-designated as a non-executive director from an independent non-executive director on 3 February 2010
6. Resigned on 19 May 2009
7. Appointed on 13 May 2009
8. Apointed on 13 May 2009 and resigned on 16 December 2009
9. Appointed on 16 December 2009
10. Resiged on 23 June 2009
11. Retired on 30 April 2009

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2010 and 2009.

## 14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

### 14.2 Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2009: two) directors whose emoluments are reflected in the analysis presented in note 14.1 above. The emoluments payable to the remaining one (2009: three) individuals during the year are as follows:

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Salaries and allowance | **175** | 1,269 |
| Equity settled share-based payment expenses | **16** | – |
| Retirement benefit costs | **8** | 28 |
| | **199** | 1,297 |

Their emoluments were within the following band:

| | **Number of individuals** | |
|---|---|---|
| | **2010** | 2009 |
| NIL to HK$1,000,000 | **1** | 3 |

During the year, no emoluments were paid by the Group to the Directors or the one (2009: three) highest paid individual as an inducement to join or upon joining the Group or as compensation for loss of office.

## 15. PROPERTY, PLANT AND EQUIPMENT

**The Group**

| | Leasehold land and buildings HK$'000 | Leasehold improvements HK$'000 | Furniture, fixtures and office equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2009 | | | | | |
| Cost | – | 243 | 3,577 | 200 | 4,020 |
| Accumulated depreciation | – | (23) | (3,232) | (147) | (3,402) |
| Net book amount | – | 220 | 345 | 53 | 618 |
| Year ended 31 December 2009 | | | | | |
| Opening net book amount | – | 220 | 345 | 53 | 618 |
| Additions | – | 181 | 91 | – | 272 |
| Acquisition of subsidiaries | – | – | 9 | – | 9 |
| Depreciation | – | (96) | (163) | (40) | (299) |
| Disposals | – | (232) | (132) | – | (364) |
| Closing net book amount | – | 73 | 150 | 13 | 236 |
| At 31 December 2009 | | | | | |
| Cost | – | 127 | 452 | 200 | 779 |
| Accumulated depreciation | – | (54) | (302) | (187) | (543) |
| Net book amount | – | 73 | 150 | 13 | 236 |
| **Year ended 31 December 2010** | | | | | |
| Opening net book amount | **–** | **73** | **150** | **13** | **236** |
| Additions | **13,591** | **1,690** | **542** | **2,340** | **18,163** |
| Depreciation | **(156)** | **(575)** | **(75)** | **(331)** | **(1,137)** |
| Disposals | **–** | **(60)** | **(34)** | **–** | **(94)** |
| **Closing net book amount** | **13,435** | **1,128** | **583** | **2,022** | **17,168** |
| **At 31 December 2010** | | | | | |
| Cost | **13,591** | **1,302** | **928** | **2,540** | **18,361** |
| Accumulated depreciation | **(156)** | **(174)** | **(345)** | **(518)** | **(1,193)** |
| **Net book amount** | **13,435** | **1,128** | **583** | **2,022** | **17,168** |

Certain of the Group's leasehold land and buildings which had an aggregate net book amount at 31 December 2010 of approximately HK$6,789,000 (2009: Nil) were pledged to secure the Group's banking facilities (note 30).

The Group's leasehold land and buildings are situated in Hong Kong and are held under medium-term lease.

## 15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

**The Company**

| | Leasehold improvements HK$'000 | Furniture, fixtures and office equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 January 2009 | | | | |
| Cost | 297 | 1,647 | 200 | 2,144 |
| Accumulated depreciation | (14) | (1,365) | (147) | (1,526) |
| Net book amount | 283 | 282 | 53 | 618 |
| Year ended 31 December 2009 | | | | |
| Opening net book amount | 283 | 282 | 53 | 618 |
| Additions | – | 68 | – | 68 |
| Disposals | (233) | (122) | – | (355) |
| Depreciation | (50) | (163) | (40) | (253) |
| Closing net book amount | – | 65 | 13 | 78 |
| At 31 December 2009 | | | | |
| Cost | – | 68 | 200 | 268 |
| Accumulated depreciation | – | (3) | (187) | (190) |
| Net book amount | – | 65 | 13 | 78 |
| **Year ended 31 December 2010** | | | | |
| Opening net book amount | **–** | **65** | **13** | **78** |
| Additions | **–** | **228** | **–** | **228** |
| Disposals | **–** | **(13)** | **–** | **(13)** |
| Depreciation | **–** | **(35)** | **(13)** | **(48)** |
| **Closing net book amount** | **–** | **245** | **–** | **245** |
| **At 31 December 2010** | | | | |
| Cost | **–** | **279** | **200** | **479** |
| Accumulated depreciation | **–** | **(34)** | **(200)** | **(234)** |
| **Net book amount** | **–** | **245** | **–** | **245** |

## 16. INTERESTS IN SUBSIDIARIES

### The Company

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Unlisted shares, at cost | **32,616** | 32,606 |
| Less: Provision for impairment | **(23,606)** | (23,606) |
| | **9,010** | 9,000 |

Particulars of the Company's subsidiaries at 31 December 2010 are as follows:

| Name of subsidiary | Place of incorporation or registration | Issued and fully paid share capital/ registered capital | Attributable equity interest held by the Company Directly | Attributable equity interest held by the Company Indirectly | Principal activities |
|---|---|---|---|---|---|
| Network Engineering Limited | Hong Kong | Ordinary HK$1,000,000 | 100% | – | Provision of network infrastructure and electrical installation services |
| Vertex Systems Services Limited | Hong Kong | Ordinary HK$2 | 100% | – | Inactive |
| VCTG Technology Limited | Hong Kong | Ordinary HK$2 | 100% | – | Provision of digital solution services |
| Great Wall Telecommunications Group Ltd. | British Virgin Islands | Ordinary US$157,844 | 100% | – | Investment holding |
| 上海創一信息技術有限公司 (“上海創一”) | PRC | Registered US$140,000 | – | 100% | Inactive |
| Vertex Media Ltd. | British Virgin Islands | Ordinary US$19,860 | 100% | – | Investment holding |
| VCTG Amonic Solutions (Macau) Limited | Macau | Ordinary MOP50,000 | – | 100% | Provision of digital solution services |
| Vertex Digital Media Limited | British Virgin Islands | Ordinary US$1 | – | 100% | Inactive |

## 16. INTERESTS IN SUBSIDIARIES *(Continued)*

### The Company

| Name of subsidiary | Place of incorporation or registration | Issued and fully paid share capital/ registered capital | Attributable equity interest held by the Company Directly | Indirectly | Principal activities |
|---|---|---|---|---|---|
| SinoWorld Media Company Limited | Hong Kong | Ordinary HK$5,165,000 | – | 80% | Investment holding |
| SinoWorld CNW Publishing Limited | Hong Kong | Ordinary HK$2,050,000 | – | 72% | Inactive |
| Vertex TRC Publishing Company Limited | Hong Kong | Ordinary HK$2 | – | 100% | Inactive |
| China Sports Enterprises Limited | Hong Kong | Ordinary HK$1 | – | 100% | Inactive |
| Gulf Pacific Services Limited | British Virgin Islands | Ordinary US$160,000 | 100% | – | Investment holding |
| National Arts Entertainment Limited | Hong Kong | Ordinary HK$1,500,000 | – | 100% | Production and distribution of films |
| National Arts Entertainment Holdings Limited | British Virgin Islands | Ordinary US$192,308 | 100% | – | Investment holding |
| National Arts Advertising & Promotions Limited | Hong Kong | Ordinary HK$1 | – | 100% | Provision of management services to artistes |
| National Arts Films Production Limited | Hong Kong | Ordinary HK$1,500,000 | – | 100% | Film developing and processing |
| Art Tour Limited* | Hong Kong | Ordinary HK$10,000 | 100% | – | Property investment |
| National Arts Performing Arts Training Centre Limited* | Hong Kong | Ordinary HK$100,000 | – | 100% | Inactive |
| 一譽國藝投資咨詢(深圳)有限公司 (“一譽國藝”)* | PRC | Registered RMB500,000 | – | 100% | Inactive |

Note: The principal place of operation of all the above companies is in Hong Kong except for 上海創一 and 一譽國藝 which operate in the PRC and VCTG Amonic Solutions (Macau) Limited which operate in Macau.

None of the subsidiaries had issued any listed securities at the reporting date.

* Newly incorporated during the year.

## 17. GOODWILL

**The Group**

The carrying amount of goodwill mainly resulted from the acquisition of National Arts Entertainment Holdings Limited and its subsidiaries (the "National Arts Group"). The net carrying amount of goodwill can be analysed as follows:

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| At 1 January | | |
| Gross carrying amount | 20,456 | 20,456 |
| Accumulated impairment losses | (11,482) | (11,482) |
| | 8,974 | 8,974 |

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Net carrying amount at 1 January | 8,974 | – |
| Acquisition of subsidiaries (note 38) | – | 8,974 |
| **Net carrying amount at 31 December** | 8,974 | 8,974 |

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| At 31 December | | |
| Gross carrying amount | 20,456 | 20,456 |
| Accumulated impairment losses | (11,482) | (11,482) |
| | 8,974 | 8,974 |

## 17. GOODWILL *(Continued)*

### Impairment testing of goodwill

Goodwill acquired through business combination during the year ended 31 December 2009 had been allocated to film production and distribution and artiste management cash-generating unit (the "Film CGU"), which is a reportable segment, for impairment testing.

The recoverable amount of the Film CGU has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period with a growth rate approved by senior management, which is based on the management's expectation for market development. The discount rate applied to the cash flow projections is 3%.

Key assumptions were used in the value-in-use calculation of the Film CGU and the following describes each key assumption on which the management has based its cash flow projections to undertake impairment testing of goodwill:

*Budget gross margins* – the basis used to determine the value assigned to the budgeted gross margins is the expected gross margins achieved in the same industry, increase for expected efficiency improvement, and expected market development.

*Discount rates* – The discount rate used is before tax.

## 18. DISPOSALS OF ASSOCIATE

**The Group**

On 8 April 2009, the Group entered into a sale agreement with Sino East Oil Company Limited, a company controlled by Dr. Poon, to dispose of the Group's 50% equity interests in Sino East Oil Services Limited (the "Associate") at a cash consideration of US$50,000 (equivalent to approximately HK$388,000), satisfied by cash in full. The disposal of the Associate was completed on 9 April 2009 and the net carrying amount of the Associate as at that date was nil, resulting in a gain on disposal of HK$388,000. The disposal of the Associate constituted a related party transaction as the respective purchaser is controlled by Dr. Poon.

## 19. FILM PRODUCTS

**The Group**

| | HK$'000 |
|---|---|
| Cost: | |
| At 1 January 2010 | – |
| Transfer from film production in progress (note 20) | 30,500 |
| **At 31 December 2010** | **30,500** |
| Accumulated amortisation and impairment losses: | |
| At 1 January 2010 | – |
| Provided during the year | 21,817 |
| Impairment during the year | 4,750 |
| **At 31 December 2010** | **26,567** |
| Net book amount: | |
| **At 31 December 2010** | **3,933** |

During the year ended 31 December 2010, the directors assessed the recoverable amount of the film products and based on which an impairment loss of HK$4,750,000 (2009: Nil) was recognised in the consolidated statement of comprehensive income. The estimated recoverable amount was determined based on the best estimation of the management on expected future revenue less the relevant costs arising from the distribution and sub-licensing of the film products.

## 20. FILM PRODUCTION IN PROGRESS

**The Group**

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| At 1 January | **14,691** | – |
| Additions | **48,056** | 14,691 |
| Transfer to film products (note 19) | **(30,500)** | – |
| **At 31 December** | **32,247** | 14,691 |

## 21. TRADE RECEIVABLES

**The Group**

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Trade receivables | **2,656** | 11,748 |
| *Less:* Allowances for bad and doubtful debts | **–** | (2,167) |
| | **2,656** | 9,581 |

The Group generally allows a credit period from 60 to 90 days (2009: 60 to 90 days) to its trade customers. The following is the ageing analysis of trade receivables, net of allowances for bad and doubtful debts, at the reporting date:

**The Group**

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| 0 to 60 days | **2,628** | 573 |
| 61 to 90 days | **10** | – |
| 91 to 180 days | **10** | 91 |
| Over 180 days | **8** | 8,917 |
| | **2,656** | 9,581 |

At 31 December 2010, trade receivables of HK$2,628,000 (2009: HK$573,000) were neither past due nor impaired. These balances related to certain customers whom there was no recent history of default.

Included in the balances are debtors with carrying amounts of HK$18,000 (2009: HK$9,008,000) which are past due at the reporting date for which the Group has not provided for impairment loss. Trade receivables that are past due but not impaired relate to a number of customers and the directors are of the opinion that no provision for impairment 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.

## 21. TRADE RECEIVABLES *(Continued)*

The following is the ageing of trade receivables which are past due but not impaired:

**The Group**

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| 91 to 180 days | 10 | 91 |
| Over 180 days | 8 | 8,917 |
| | 18 | 9,008 |

The following is the movement in the allowances for bad and doubtful debts:

**The Group**

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| At 1 January | 2,167 | 1,425 |
| Impairment loss recognised | – | 1,006 |
| Amounts written off | (2,167) | (264) |
| **At 31 December** | – | 2,167 |

During the year ended 31 December 2009, allowances for bad and doubtful debts which were individually impaired with gross balance of HK$1,006,000. The individually impaired trade receivables relate to customers that were in default or delinquency payments. Such impaired trade receivable was aged over 180 days. The Group did not hold any collateral over these balances.

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

**The Group and The Company**

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Listed equity investments in Hong Kong, at market value | 2,136 | – |

The fair value of the listed equity investments is based on the quoted market bid price available on the Stock Exchange. During the year ended 31 December 2010, fair value gain amounted to HK$208,000 was recognised in the consolidated statement of comprehensive income.

## 23. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Cash at banks and in hand (notes (a) and (c)) | **160,827** | 6,277 | **150,929** | 3,342 |
| Pledged bank deposits (note (b)) | **–** | 200 | **–** | – |
| | **160,827** | 6,477 | **150,929** | 3,342 |
| Less: Pledged bank deposits (note (b)) | **–** | (200) | **–** | – |
| Cash and cash equivalents | **160,827** | 6,277 | **150,929** | 3,342 |

Notes:

(a) Cash at banks earn interest at the floating rates based on the daily bank deposits rates.

(b) The Group's bank deposits of HK$200,000 as at 31 December 2009 were pledged against issuance of performance bonds in respect of certain engineering projects. The pledged bank deposits earned interest at a fixed rate of 1% per annum and had maturity period of less than one month.

(c) At 31 December 2010, included in cash at banks and in hand of the Group was HK$5,239,000 of bank balances denominated in Renminbi ("RMB") placed with banks in the PRC and on hands. RMB is not freely convertible into foreign currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business. At 31 December 2009, the Group and the Company did not have any cash and bank balances which were denominated in RMB.

## 24. TRADE PAYABLES

The Group was granted by its suppliers' credit periods from 30 to 60 days. The following is the ageing analysis of trade payables at the reporting date:

**The Group**

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 0 to 30 days | **–** | 395 |
| 31 to 60 days | **–** | 48 |
| 61 to 90 days | **–** | – |
| 91 to 180 days | **–** | 184 |
| Over 180 days | **2,067** | 10,599 |
| | **2,067** | 11,226 |

## 25. AMOUNTS DUE TO RELATED COMPANIES

**The Group and The Company**

At 31 December 2009, the amounts due represented advances from Bright World Enterprise Limited and Forever Triumph Limited, in which Dr. Poon had a beneficial interest and Dr. Poon and Mr. Poon Shu Yan, Joseph were also directors of the related companies.

The amounts due were unsecured, interest-free and repayable on demand.

## 26. AMOUNTS DUE FROM SUBSIDIARIES

**The Company**

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Amounts due from subsidiaries | **187,175** | 114,660 |
| Less: Provision for impairment | **(130,447)** | (106,560) |
| | **56,728** | 8,100 |

During the year, the directors reviewed the carrying value of the amounts due from subsidiaries with reference to the business operated by these subsidiaries. An impairment loss of approximately HK$23,887,000 (2009: Nil) was recognised in the Company's statement of comprehensive income during the year.

The amounts due are unsecured, interest-free and repayable on demand.

## 27. AMOUNTS DUE TO SUBSIDIARIES

**The Company**

The amounts due are unsecured, interest-free and repayable on demand.

## 28. CONVERTIBLE BONDS

In March 2006, Coastal Power Company Limited ("CPCL"), a former subsidiary of the Company which was disposed of during the year ended 31 December 2009, issued bonds in the principal amount of US$4,000,000 (equivalent to approximately HK$31,199,000) to LIM Asia Multi-Strategy Fund Inc. (the "LIM Fund") with a maturity date due on 31 March 2011 (the "Convertible Bonds"). The Convertible Bonds will, at the option of the LIM Fund, be convertible on or after 27 March 2006 up to and including 31 March 2011 into ordinary shares of CPCL at an initial conversion price of US$36 per share subject to adjustment in the event of bonus issue or free distribution of the shares of CPCL, subdivision, consolidations, capital distribution, rights issue and issues of shares at less than the conversion price by CPCL. The interest rate of the Convertible Bonds is 6% per annum payable quarterly in advance. The Convertible Bonds that are not converted into ordinary shares will be redeemed at 133.822% of its principal amount on 31 March 2011. Details of the terms of the Convertible Bonds are set out in the Company's circular dated 11 April 2006.

The functional currency of CPCL is HK$ and the conversion option of the Convertible Bonds is denominated in US$. As the conversion price for the Convertible Bonds is subject to change, the conversion will not result in settlement by the exchange of a fixed number of equity instruments. Therefore, upon application of HKAS 32 and HKAS 39, the Group determined that the Convertible Bonds do not contain any equity component and the entire Convertible Bonds are designated as "financial liabilities at fair value through profit or loss" which require the Convertible Bonds to be carried at fair value at the reporting date with the changes in fair value being recognised in profit or loss.

CPCL, being a company under Vertex CDM Group, was disposed of during the year ended 31 December 2009 (see note 10.2), the fair value of the Convertible Bonds at the date of completion of the Disposal was calculated using the Model and the inputs into the Model were as follows:

| | |
|---|---|
| Stock price | US$12.9 |
| Stock borrowing cost | 12.86% |
| Expected volatility | 32.69% |
| Expected dividend yield | 4.89% |
| Issuer's credit spread | 34.73% |

Movement of the carrying amount of the Convertible Bonds is set out below:

**The Group**

| | 2009<br>HK$'000 |
|---|---|
| At 1 January | 31,403 |
| Change in fair value recognised in profit or loss | 4,310 |
| Disposal of subsidiary (note 37) | (35,713) |
| **At 31 December** | – |

## 29. BONDS, SECURED

On 27 February 2004, the Company issued bonds in an aggregate amount of US$2,000,000 (the "Bonds") to the LIM Fund, together with the warrants which entitled the bondholders to subscribe for the ordinary shares of the Company.

The Company had the right to repay early part or the entire amount and the accrued interest of the Bonds at any time prior to the maturity date. The Directors had assessed the fair value of the early redemption right and considered the fair value was insignificant.

The Bonds, which were transferable, bore a coupon of 2%, per annum which was payable biannually on the last business day in June and December of each year and matured on 27 February 2009. The Company might, at any time by giving 30 days prior notice to the bondholders, redeem the Bonds prior to the maturity date. The bondholders had no right to request for early repayment.

The Bonds were secured by a charge of 10,000 ordinary shares in Vertex Media Ltd., 160,000 ordinary shares in Gulf Pacific Services Limited and 2 ordinary shares in Vertex TRC Publishing Company Limited, being the Company's entire interests in these companies, in favour of the LIM Fund.

The warrants entitled the bondholders to subscribe for 41,010,000 ordinary shares of HK$0.01 each of the Company at a subscription price of HK$0.474 each at any time between 27 February 2004 to 27 February 2009, both dates inclusive.

The net proceeds received from the issue of Bonds attaching the warrants therefore contained a liability element and an equity element which were required to be separately accounted for in accordance with HKAS 32. An effective rate of 6.4% p.a. was used to determine the fair value of the liability element at initial recognition.

On 12 February 2009, the Company repaid the principal amount together with the accrued interest of the Bonds of approximately HK$15,663,000. Movement of the carrying amount of the Bonds is set out below:

**The Group and the Company**

| | 2009<br>HK$'000 |
|---|---|
| Liability component at 1 January | 15,566 |
| Interest charged (note 7) | 97 |
| Repayment of principal and interest/Interest paid | (15,663) |
| **Liability component at 31 December** | – |

## 30. BANK BORROWINGS

**The Group**

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| **Current liabilities** | | |
| Portion of loans from bank due for repayment within one year | 537 | – |
| Portion of loans from banks due for repayment after one year which contain a repayable on demand clause | 3,198 | – |
| | 3,735 | – |

The Group's bank borrowings are all denominated in HK$ as at the reporting date.

The Group's bank borrowings bear interest at floating rates of 1.25% per annum over 1 month HIBOR and repayable on demand. Interest on the Group's bank borrowings is charged at the rate ranging from 1.41% to 1.44% (2009: Nil) during the year.

The Group's bank borrowings as at 31 December 2010 were secured by the Group's leasehold land and buildings which had an aggregate amount of approximately HK$6,789,000 and corporate guarantees executed by the Company.

At 31 December 2010, interest-bearing bank loans were due for repayment as follows:

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Within one year | 537 | – |
| Term loans due for repayment after one year (Note): | | |
| In the second year | 553 | – |
| In the third to fifth year | 1,706 | – |
| After the fifth year | 939 | – |
| | 3,198 | – |
| Total | 3,735 | – |

Note: The amounts due are based on the scheduled repayment dates set out in the loan agreements and ignore the effect of any repayment on demand clause.

## 31. SHARE CAPITAL

| | Number of shares | | Share capital | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **'000** | '000 | **HK$'000** | HK$'000 |
| **Ordinary shares of HK$0.01 each** | | | | |
| Authorised: | | | | |
| At 1 January and **31 December** | **60,000,000** | 60,000,000 | **600,000** | 600,000 |
| Issued and fully paid: | | | | |
| At 1 January | **1,189,635** | 615,090 | **11,896** | 6,151 |
| Shares issued under open offer (note (a)) | **3,568,906** | 355,545 | **35,689** | 3,555 |
| Share consolidation (note (b)) | **(4,282,687)** | – | **–** | – |
| Capital Reduction (note (c)) | **–** | – | **(51,377)** | – |
| Shares issued under placing of shares (note (d)) | **190,000** | 219,000 | **10,450** | 2,190 |
| **At 31 December** | **665,854** | 1,189,635 | **6,658** | 11,896 |

Notes:

(a) On 25 June 2009, the Company proposed to raise funds by way of an open offer (the "Open Offer") of 355,545,116 offer shares at a subscription price of HK$0.09 per offer share on the basis of one offer share for every two existing shares of the Company. The Open Offer became unconditional on 3 August 2009.

On 29 January 2010, the Company proposed to raise funds by way of an open offer (the "Open Offer") of 3,568,906,044 offer shares at a subscription price of HK$0.03 per offer share on the basis of three offer share for every one existing shares of the Company. The Open Offer became unconditional on 12 April 2010.

(b) Pursuant to a special resolution passed in an extraordinary general meeting of the Company, the Company effected the share consolidation on 29 September 2010 which involved every ten issued and unissued shares of HK$0.01 each in the share capital of the Company were consolidated into one share of HK$0.10 each (the "Share Consolidation").

## 31. SHARE CAPITAL *(Continued)*

Notes: *(Continued)*

(c) On 29 September 2010, pursuant to a special resolution passed in the extraordinary general meeting of the Company, the par value of each issued and unissued consolidated share was reduced from HK$0.10 each to HK$0.01 each by cancelling of HK$0.09 the paid up capital on each consolidated share (the "Capital Reduction"). Each of the authorised but unissued consolidated shares in the capital of the Company of par value of HK$0.10 each was subdivided into 10 shares of par value of HK$0.01 each (the "Share Subdivision").

(d) On 28 April 2009, the Company entered into a placing agreement to place 96,000,000 new ordinary shares of HK$0.01 each at a price of HK$0.073 each (the "First Placing"). The First Placing was completed on 8 May 2009.

On 5 November 2009, the Company entered into another placing agreement to place 123,000,000 new ordinary shares of HK$0.01 each at a price of HK$0.108 each (the "Second Placing"). The Second Placing was completed on 13 November 2009.

On 1 November 2010, 95,000,000 consolidated shares of HK$0.1 each were issued at a price of HK$0.34 each (the "Placing Share") to the subscribers in a share placing. In addition, the Company issued 95,000,000 non-listed warrants, on the basis of one warrant for each Placing Share issued, at no initial issue price. This entitles the holder of each warrant to subscribe for one new share of the Company at an exercise price of HK$0.34 at any time for a period of three years from the date of issue of such warrant. There was no exercise of the warrants during the year. As at 31 December 2010, the Company had 95,000,000 warrants outstanding. The exercise in full of the outstanding warrants would, under the present capital structure of the Company, result in the issue of 95,000,000 additional shares at HK$0.34 each.

Pursuant to a placing agreement dated 16 November 2010, 95,000,000 new ordinary shares of HK$0.01 each were issued at a price of HK$1.1 each (the "General Mandate Placing"). The placing was completed on 2 December 2010.

## 32. RESERVES

**The Group**

The amount of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 31 of the consolidated financial statements.

The special reserve represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the shares of the Company issued in exchange for the shares of the acquired subsidiaries under the reorganisation.

Pursuant to a special resolution passed in the extraordinary general meeting of the Company on 29 September 2010, a contributed surplus account was designated by the Company within the meaning of the Companies Act 1981 of Bermuda so as to carry the amounts as follows:

(i) the entire amounts standing to the credit balance of the share premium account of HK$228,710,094 of the Company were cancelled and transfer the credits arising from such cancellation to the contributed surplus account of the Company.

(ii) transfer of the share premium arising from the Capital Reduction to the contributed surplus account of the Company.

(iii) offset the accumulated losses in full effective on 9 November 2010. On 31 December 2010, the board of directors further approved to offset the accumulated losses in full up to 31 December 2010.

The warrant reserve represented the value of equity element of the Bonds on initial recognition. As the outstanding warrants as at 31 December 2008 lapsed in February 2009 following the repayment of the Bonds, the balance was transferred to accumulated losses during the year ended 31 December 2009.

## 32. RESERVES *(Continued)*

### The Company

| | Share premium HK$'000 | Capital reserve HK$'000 | Warrant reserve HK$'000 | Share option reserve HK$'000 | Contributed surplus HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2009 | 116,548 | 2,787 | 1,750 | 2,279 | – | (171,792) | (48,428) |
| Employee share-based compensation | – | – | – | 6 | – | – | 6 |
| Transfer of lapsed warrants to accumulated losses | – | – | (1,750) | – | – | 1,750 | – |
| Share issued under share placements | 18,102 | – | – | – | – | – | 18,102 |
| Share issued under open offer | 28,444 | – | – | – | – | – | 28,444 |
| Share issue expenses | (1,898) | – | – | – | – | – | (1,898) |
| Loss for the year | – | – | – | – | – | (1,695) | (1,695) |
| At 31 December 2009 and 1 January 2010 | 161,196 | 2,787 | – | 2,285 | – | (171,737) | (5,469) |
| Employee share-based compensation | – | – | – | 8,496 | – | – | 8,496 |
| Transfer of lapsed options to accumulated losses | – | – | – | (1,326) | – | 1,326 | – |
| Capital reduction | – | – | – | – | 51,377 | – | 51,377 |
| Transfer of share premium to contributed surplus | (228,710) | – | – | – | 228,710 | – | – |
| Share issued under placing of new shares | 126,350 | – | – | – | – | – | 126,350 |
| Share issued under open offer | 71,378 | – | – | – | – | – | 71,378 |
| Share issue expenses | (7,932) | – | – | – | – | – | (7,932) |
| Loss for the year | – | – | – | – | – | (33,205) | (33,205) |
| Transfer of accumulated losses to contributed surplus | – | – | – | – | (203,616) | 203,616 | – |
| **At 31 December 2010** | **122,282** | **2,787** | **–** | **9,455** | **76,471** | **–** | **210,995** |

## 32. RESERVES *(Continued)*

**The Company** *(Continued)*

The contributed surplus of the Company arose as a result of capital reorganisation and represents the entire amounts standing to the credit of the share premium account of the Company as at 30 June 2010 and the credits arising from capital reduction for eliminating or setting off the accumulated losses of the Company from time to time. Under the Companies Act 1981 of Bermuda, the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay dividend, or make a distribution out of the contributed surplus, if there are reasonable grounds for believing that: (i) it is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

The capital reserve of the Company arose as a result of the reorganisation and represents the excess of the combined net assets of the subsidiaries acquired over the nominal value of the share capital of the Company issued in exchange thereof.

## 33. OPERATING LEASE COMMITMENTS

At the reporting date, the Group and the Company had the following future minimum lease payments under non-cancellable operating leases which fall due as follows:

**The Group**

| | **2010**<br>**HK$'000** | 2009<br>HK$'000 |
|---|---|---|
| Within one year | **95** | 467 |
| In the second to fifth year inclusive | **–** | 146 |
| | **95** | 613 |

## 33. OPERATING LEASE COMMITMENTS *(Continued)*

**The Company**

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Within one year | – | 227 |
| In the second to fifth year inclusive | – | 146 |
| | – | 373 |

The Group and the Company lease a number of rented premises under operating leases. Leases are negotiated for a term of one to two years and none of the leases include contingent rentals.

## 34. CAPITAL COMMITMENTS

**The Group**

At 31 December 2010, the Group had the following capital commitments:

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| **Authorised but not contracted for:** | | |
| Acqusition of subsidiaries (note 43.1) | 300,000 | – |

**The Company**

At 31 December 2010, the Company had no significant capital commitment (2009: Nil).

## 35. SHARE-BASED EMPLOYEE COMPENSATION

As at 31 December 2010, the Group had share options schemes for employee compensation as set out below.

### 35.1 Pre-initial public offering share option scheme

The purpose of the pre-initial public offering share option scheme ("Pre-IPO Option Scheme") is to recognise the contribution of certain directors, employees, advisors and consultants of the Company to the growth of the Company and/or to the listing of the Company's shares on the GEM. The principal terms of the Pre-IPO Option Scheme, which conditionally approved by a written resolution of the sole shareholder dated 22 July 2002, are substantially the same as the terms of the Post-IPO Option Scheme except that:

(i) the subscription price per share is HK$3.06 (as adjusted for the Open Offer and Share Consolidation), depending on the employment period of the grantee and/or the grantee's contribution to the Group;

(ii) total number of shares subject to the Pre-IPO Option Scheme is 197,097 (2009: 197,097 (as adjusted for the Open Offer and Share Consolidation)) equivalent to approximately 0.03% (2009: 0.04%) of the issued share capital of the Company as of the reporting date;

(iii) save for the share options which were granted on 24 July 2002, no further share options would be offered or granted under the Pre-IPO Option Scheme, as the right to do so ended on 9 October 2002;

(iv) no share option granted under the Pre-IPO Share Option Scheme can be exercised before 17 October 2003; and

(v) the Pre-IPO Option Scheme contains no provisions on (a) the granting of share options to connected persons (as defined in the GEM Listing Rules); (b) the restrictions of the total number of shares which may be issued upon exercise of all the share options to be granted; and (c) the maximum entitlement of a grantee under the Pre-IPO Option Scheme.

## 35. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

### 35.1 Pre-initial public offering share option scheme *(Continued)*

As at 31 December 2010, the share options to subscribe for an aggregate of 197,097 (2009: 197,097 (as adjusted for the Open Offer and Share Consolidation)) shares of the Company at a subscription price ranging from HK$0.425 to HK$3.06 (as adjusted for the Open Offer and Share Consolidation) were granted by the Company to the Directors, advisors and consultants and employees under the Pre-IPO Option Scheme each for HK$1 and in return for each of the grantee's surrender of their share options previously granted by SAR1 under a share option scheme for subscription of shares in SAR1. A portion of each grantee's right to exercise the share option that has been granted under the Pre-IPO Option Scheme was deemed to have vested on 17 June 2002 and the rest of the right shall continue to vest over a period of not more than 4 years from 17 June 2002 on a monthly basis each time for 1/48th of the total number of shares comprised in the share option and, subject to that no share option granted under the Pre-IPO Option Scheme can be exercised before 17 October 2003, any vested right shall remain exercisable on or before 23 July 2012.

### 35.2 Post initial public offering share option scheme

The post initial public offering share option scheme ("Post-IPO Option Scheme") was conditionally approved by a resolution of the sole shareholder dated 22 July 2002 (the "Effective Date"). Major terms of this scheme are summarised as follows:

(i) The Post-IPO Option Scheme enables the Company to grant share options to selected persons as incentives or rewards for their contribution to the Group.

(ii) The participants of the Post-IPO Option Scheme include any employee, director, advisor and consultant, supplier, customer and shareholder of any member of the Group as well as any provider of financial assistance to any member of the Group.

(iii) HK$1 is payable by the grantee to the Company on acceptance of the share option offer. The share option offer will be offered for acceptance for a period of 14 days from the date on which the offer is granted.

(iv) Share options may be granted on such terms and conditions in relation to their vesting, exercise or otherwise as the board of directors of the Company may determine, provided such terms and conditions shall not be inconsistent with any other terms and conditions of the Post-IPO Option Scheme. The grantees are not required to hold any share options or any shares allotted pursuant to any share options for any minimum period.

## 35. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

### 35.2 Post initial public offering share option scheme *(Continued)*

(v) The subscription price for the shares under the Post-IPO Option Scheme will be determined by the board of directors of the Company and notified to each grantee and will be at least the highest of (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the share option, which must be a business day, (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant and (c) the nominal value of a share.

(vi) The limit on the number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Post-IPO Option Scheme and other share option schemes must not exceed 30% of the shares in issue from time to time.

(vii) The total number of shares which may be issued upon exercise of all share options to be granted under the Post-IPO Option Scheme and any other share option schemes must not in aggregate exceed 10% of the shares in issue as at 17 October 2002, amounting to 49,219,623 shares (the "Scheme Mandate Limit"). The Company may renew the Scheme Mandate Limit at any time subject to prior shareholders' approval. However, the Scheme Mandate Limit as renewed must not exceed 10% of the shares in issue as at the date of the aforesaid shareholders' approval.

(viii) The total number of shares issued and to be issued upon exercise of the share options granted under the Post-IPO Option Scheme to each grantee (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares in issue from time to time. Any further grant of share options to such grantee which would result in the shares issued and to be issued upon exercise of all share options granted and to be granted to such grantee (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, must be subject to shareholders' approval with such grantee and his associates abstaining from voting.

(ix) A share option may be exercised in accordance with the terms of the Post-IPO Option Scheme at any time during the period notified by the board of directors of the Company to each grantee provided that the period within which the share option must be exercised shall not be more than 10 years from the date of grant of the share option.

## 35. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

### 35.2 Post initial public offering share option scheme *(Continued)*

(x) The Post-IPO Option Scheme remains valid for a period of 10 years commencing on the Effective Date. In addition, the Company may, by ordinary resolution in general meeting or the board of directors of the Company may at any time terminate the operation of the Post-IPO Option Scheme. Share options which are granted during the life of the Post-IPO Option Scheme may continue to be exercisable in accordance with their terms of issue.

Pursuant to a special resolution passed in the extraordinary general meeting of the Company, the Post-IPO Option Scheme was terminated on 29 September 2009.

### 35.3 New share option scheme

Pursuant to a special resolution passed in the extraordinary general meeting of the Company, a new share option scheme ("New Scheme") was approved on 29 September 2010. Major terms of this scheme are summarised as follows:

(i) The purpose of the New Scheme is to attract and retain the best available personnel, to provide additional incentive to selected person and to promote the success of the business of the Group;

(ii) The participants of the New Scheme include any employee of the Company or any subsidiary of the Company, a Director, a shareholder, a supplier, a customer or any subsidiary of the Company; an agent, adviser, consultant, strategist, contractor, sub-contractor, expert or entity that provides research, development or other technological support or any valuable services to Company or any of its subsidiary; a holder of any securities issued by Company or any of its subsidiary;

(iii) HK$1 is payable by the grantee to the Company on acceptance of the share option offer. The share option offer will be offered for acceptance for a period of 14 days from the date on which the offer is granted;

(iv) No offer of a New Share Option which is capable of or open for acceptance shall be made after the expiry of the exercise period pursuant to the New Scheme;

(v) The subscription price for the share under the New Scheme will be determined by the Board in its absolute discretion at the time of making the offer of grant of a new share option but in any case the subscription price must be at least the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a Business Day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five Business Day immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares.

## 35. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

### 35.3 New share option scheme *(Continued)*

(vi) the total number of shares which may be issued upon exercise of all share options to be granted under the New Scheme and any other schemes in aggregate not exceeding 10 per cent of the issued share capital of the Company as at 29 September 2010, amounting to 475,854,139 shares (the "Scheme Mandate Limit"). The Company may renew the Scheme Mandate Limit at any time subject to the approval of the Shareholders in general meeting provided that such renewed limit shall not exceed 10 per cent of the Shares in issue as at the date of approval of such limit;

(vii) The total number of New Shares issued and to be issued upon the exercise of the New Share Options granted to each grantee (including exercised, cancelled and outstanding Share Options) in any 12 month period shall not exceed 1 per cent of the relevant class of securities of the Company in issue. Further New Share Options may be granted to such grantee, which, if exercised, would result in such grantee becoming entitled to subscribe for New Shares in excess of the limit, by obtaining approval of the Shareholders in general meeting with such grantee and his associate(s) abstaining from voting;

(viii) the share options may be exercised in whole or in part by the Participant at any time during the exercise period, i.e. not exceed 10 years from the date of grant of the relevant New Share Options pursuant to the New Scheme, by delivering to the Company a notice duly signed in a form approved by the Board (together with payment of the exercise price in full in respect of each New Share to be subscribed for) and delivery of the New Share Option certificate for amendment or cancellation; and

(ix) the New Scheme will remain in force for a period of 10 years commencing on the date on which the New Scheme becomes unconditional. The Board may amend any of the provisions of the New Scheme or withdraw or otherwise terminate the New Scheme at any time but no alterations shall be made to the advantage of any Participant unless approved by the Shareholders in general meeting. All New Share Options granted prior to such termination and not then exercise shall continue to be valid and exercisable subject to and in accordance with the terms of the New Scheme.

No share options were granted under the New Scheme during the year ended 31 December 2010.

## 35. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

The following table discloses movements of the Company's share options held by the Directors, employees as well as advisors and consultants. The weighted average exercise price and the number of share options disclosed below have been adjusted for the effect of the Open Offer and Share Consolidation, where appropriate:

| | Number of share options | | | | |
|---|---|---|---|---|---|
| | Outstanding at 1 January 2010 | Granted during the year | Lapsed during the year Note (a) | Adjusted upon share consolidation | Outstanding at 31 December 2010 |
| **Option type** | | | | | |
| Pre-IPO Option Scheme | 196,507 | – | – | – | 196,507 |
| Post-IPO Option Scheme | 883,841 | 782,500,000 | (1,000,000) | (703,350,000) | 79,033,841 |
| | 1,080,348 | 782,500,000 | (1,000,000) | (703,350,000) | 79,230,348 |
| Exercisable at the end of the year | | | | | 79,230,348 |
| Weighted average exercise price | HK$3.44 | – | HK$0.48 | – | HK$0.60 |

| | Number of share options | | | | | | |
|---|---|---|---|---|---|---|---|
| | Outstanding at 1 January 2009 | Granted during the year | Exercised during the year | Lapsed during the year | Adjusted upon Open Offer | Adjusted upon share consolidation | Outstanding at 31 December 2009 |
| **Option type** | | | | | | | |
| Pre-IPO Option Scheme | 1,416,942 | – | – | (5,892) | 554,024 | (1,768,567) | 196,507 |
| Post-IPO Option Scheme | 13,113,900 | – | – | (6,759,900) | 2,484,414 | (7,954,573) | 883,841 |
| | 14,530,842 | – | – | (6,765,792) | 3,038,438 | (9,723,140) | 1,080,348 |
| Exercisable at the end of the year | | | | | | | 1,080,348 |
| Weighted average exercise price | HK$0.48 | – | – | HK$0.48 | – | – | HK$3.44 |

Notes:

(a) These options were lapsed when the employee resigned and left the Group.

(b) No options were exercised during the years ended 31 December 2009 and 2010.

## 35. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

The Company has used the Black-Scholes option pricing model (the "BS Model") to value the share options granted since 1 January 2005, upon the first-time application of HKFRS 2. The BS Model is one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

The fair value of the outstanding share options granted after 1 January 2005 were derived by using the BS Model at the date of grant.

The share options granted during the year ended 31 December 2010 were valued by an independent professional valuer and the following significant assumptions were used to derive the fair value:

| Date of grant | Option value | Exercise price<br>Notes | Risk-free interest rate | Expected volatility | Dividend yield | Life of options |
|---|---|---|---|---|---|---|
| 10 November 2006 | HK$0.51 | HK$3.53 | 3.9% | 8% | Nil | 10 years |
| 13 May 2010 | HK$0.0194 | HK$0.61 | 2.7% | 81% | Nil | 10 years |
| 20 May 2010 | HK$0.0113 | HK$0.56 | 2.6% | 80% | Nil | 10 years |
| 3 September 2010 | HK$0.0106 | HK$0.48 | 2.7% | 64% | Nil | 10 years |

Notes:

(a) The exercise prices of the share options disclosed above have been adjusted for the effect of the Open Offer and Share Consolidation.

(b) Expected volatility: being the approximate historical volatility of closing prices of the share of the company in the past one year immediately before the date of grant.

(c) Expected life of option: being the period of 10 years commencing on the date of grant.

(d) Risk-free interest rate: being the approximate yields of 10-year Hong Kong Exchange Fund Notes traded on the date of grant, matching the expected life of each option.

During the year, the Group recognised the share option expenses of HK$8,496,000 (2009: HK$6,000) in consolidated statement of comprehensive income in relation to share options granted to the employees by the Company, with a corresponding adjustment recognised in the Group's share option reserve.

## 36. RELATED PARTY TRANSACTIONS

**36.1** In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year and in prior year:

| | Notes | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|---|
| Rental expense paid to a director | (a) | 267 | – |
| Purchase of office premise from a director | (b) | 6,480 | – |
| Interest paid to a related company | (c) | 360 | – |

Notes:

(a) During the year, the rental expense paid to Mr. Sin Kwok Lam ("Mr. Sin"), a non-executive director of the Company. The Group had paid HK$267,000 to Mr. Sin for renting an office premise from April to September 2010.

(b) On 16 August 2010, a sales and purchase agreement was entered into between the Group and Mr. Sin for the acquisition of an office premise at a consideration of HK$6,480,000.

(c) During the year, interest expense of HK$360,000 paid to First Credit Limited in which Mr. Sin is also a director of this company.

**36.2 Compensation of key management personnel of the Group**

The Directors are of the opinion that the key management personnel were the directors of the Company, details of whose emoluments are set out in note 14.1.

## 37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

**Disposal of subsidiaries – Vertex CDM Group**

| | 2009<br>HK$'000 |
|---|---|
| Net liabilities disposed of: | |
| Prepayments, deposits and other receivables | 116 |
| Cash and cash equivalents | 224 |
| Other payables and accruals | (1,612) |
| Convertible Bonds (note 28) | (35,713) |
| | (36,985) |
| Gain on disposal of subsidiaries | 37,185 |
| Consideration satisfied by cash | 200 |

## 37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

**Disposal of subsidiaries – Vertex CDM Group** *(Continued)*

An analysis of net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

| | HK$'000 |
|---|---|
| Cash consideration received | 200 |
| Cash and cash equivalents disposed of | (224) |
| Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries | (24) |

## 38. BUSINESS COMBINATIONS

In October 2009, the Group acquired 100% of issued shares of National Arts Entertainment Holdings Limited ("National Arts") from independent third parties (the "Acquisition"). National Arts together with its subsidiaries (collectively referred to as the "National Arts Group") are engaged in film production and the provision of artiste management services.

Details of the net assets acquired and goodwill arising from the Acquisition were as follow:

| | 2009<br>HK$'000 |
|---|---|
| Purchase consideration – cash paid | 9,000 |
| Fair value of net assets acquired (see below) | (26) |
| Goodwill (note 17) | 8,974 |

The fair values of the identifiable assets and liabilities of National Arts Group acquired and the corresponding carrying amounts immediately before the Acquisition were as follows:

| | **Fair value**<br>HK$'000 | **Acquiree's carrying amount**<br>HK$'000 |
|---|---|---|
| Cash and cash equivalents | 956 | 956 |
| Property, plant and equipment | 9 | 9 |
| Trade receivables | 16 | 16 |
| Trade payables | (182) | (182) |
| Other payables and accruals | (773) | (773) |
| | 26 | 26 |

## 38. BUSINESS COMBINATIONS *(Continued)*

The net assets of National Arts Group were carried at amounts not materially different from their fair values as at the date of acquisition and the reporting date.

The goodwill was attributable to the value of the assembled workforce of National Arts Group which could not be recognised as an intangible asset under HKAS 38 – Intangible Assets, the profitability of the new business and the future significant operating synergies expected to arise after the Group's Acquisition. Goodwill had been allocated to cash-generating units at 31 December 2009, and was attributable to the film production and distribution and artiste management segment.

An analysis of the net outflow of cash and cash equivalents in respect of the Acquisition was as follows:

| | HK$'000 |
|---|---|
| Purchase consideration settled in cash | 9,000 |
| Cash and cash equivalents acquired | (956) |
| Net cash outflow in respect of the Acquisition | 8,044 |

If the Acquisition had occurred at the beginning of the year (i.e. 1 January 2009), the Group's revenue would have been HK$5,808,000 and profit after tax would have been HK$18,841,000 for the year ended 31 December 2009. This pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2009, nor is it intended to be a projection of future results.

Since the Acquisition, National Arts Group contributed revenues of HK$24,000 and loss of HK$588,000 to the consolidated result of the Group for the year ended 31 December 2009.

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which result from its operating, investing and financing activities. The Group's major financial instruments include investment held for trading, trade receivables, deposits and other receivables, cash and cash equivalents, trade payables, other payables and accrual and bank borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies applied by the Group to mitigate these risks are set out below. The Directors manage and monitor these exposures to ensure appropriate measures are implemented in a timely and effective manner.

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### 39.1 Categories of financial assets and liabilities

The carrying amounts of the Group's and the Company's financial assets and liabilities recognised at the reporting date may also be categorised as follows. See notes 3.11 and 3.17 for explanations on how the category of financial instruments affects their subsequent measurement.

**Financial assets – The Group**

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Financial asset at fair value through profit or loss | | |
| – Investment held for trading | 2,136 | – |
| Loans and receivables | | |
| – Trade receivables | 2,656 | 9,581 |
| – Deposits and other receivables | 2,518 | 916 |
| – Pledged bank deposits | – | 200 |
| – Cash and cash equivalents | 160,827 | 6,277 |
| | 166,001 | 16,974 |

**Financial assets – The Company**

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Financial asset at fair value through profit or loss | | |
| – Investment held for trading | 2,136 | – |
| Loans and receivables | | |
| – Deposits and other receivables | 19 | 150 |
| – Amounts due from subsidiaries | 56,728 | 8,100 |
| – Cash and cash equivalents | 150,929 | 3,342 |
| | 207,676 | 11,592 |

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### 39.1 Categories of financial assets and liabilities *(Continued)*

**Financial liabilities – The Group**

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Financial liabilities measured at amortised cost | | |
| – Trade payables | 2,067 | 11,226 |
| – Other payables and accruals | 7,282 | 3,440 |
| – Amounts due to related companies | – | 16,256 |
| – Bank Borrowings | 3,735 | – |
| | 13,084 | 30,922 |

**Financial liabilities – The Company**

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Financial liabilities measured at amortised cost | | |
| – Other payables and accruals | 1,028 | 872 |
| – Amounts due to related companies | – | 12,603 |
| – Amounts due to subsidiaries | 1,088 | 1,088 |
| | 2,116 | 14,563 |

### 39.2 Currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Several subsidiaries of the Group have foreign currency sales and purchases, which expose the Group to foreign currency risk. Certain trade receivables and payables of the Group are denominated in either RMB or United States dollars ("US$"). The Group currently does not have a foreign currency hedging policy as the Directors considered that the volatility of the exchange rates between HK$, RMB and US$ is limited. However, the Directors monitor the foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### 39.3 Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The interest rates and terms of repayment of the bank borrowings are disclosed in notes 30. The Group does not have any other significant exposure to the risk of changes in interest rates as the Group does not have long-term receivables or debts which are subject to floating interest rate. The Group currently does not have any interest rate hedging policy, however, the Directors monitor interest rate change exposure and will consider hedging significant interest rate change exposure should the need arise.

### 39.4 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. As at 31 December 2010, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is the carrying amount of the respective financial assets as stated in the consolidated statement of financial position. To minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts.

Majority of the Group's bank balances are deposited with banks in Hong Kong and the Group has limited the exposure to any single financial institution. The credit risk on liquid funds is limited because the counterparties are banks with good credit-rating.

Credit risk is concentrated as 95% (2009: Nil) of the total trade receivables are due from the Group's largest customer within the films production and distribution and artiste management business segment. However, the management of the Group closely monitors the progress of collecting the payments from the customers and reviews the overdue balances regularly. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### 39.5 Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities. In the management of liquidity risk, the Directors monitor and maintain a level of cash and cash equivalents deemed adequate to finance the Group's operations and to meet its debt obligations as they fall due. The Group finances its working capital requirements mainly by the funds obtained from the issuance of equity instruments.

At the reporting date, the maturity profile of the Group's and the Company's financial liabilities based on contractual undiscounted payments were set out below specifically for term loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect:

**The Group**

| | Carrying amount HK$'000 | Total contractual undiscounted payments HK$'000 | Within 1 year or on demand HK$'000 |
|---|---|---|---|
| **At 31 December 2010** | | | |
| Trade and other payables | **9,349** | **9,349** | **9,349** |
| Bank borrowings – Term loans subject to a repayable on demand clause | **3,735** | **3,735** | **3,735** |
| | **13,084** | **13,084** | **13,084** |
| At 31 December 2009 | | | |
| Trade and other payables | 14,666 | 14,666 | 14,666 |
| Amounts due to related companies | 16,256 | 16,256 | 16,256 |
| | 30,922 | 30,922 | 30,922 |

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### 39.5 Liquidity risk *(Continued)*

**The Company**

| | Carrying amount HK$'000 | Total contractual undiscounted payments HK$'000 | Within 1 year or on demand HK$'000 |
|---|---|---|---|
| **At 31 December 2010** | | | |
| Other payables and accruals | **1,028** | **1,028** | **1,028** |
| Amounts due to subsidiaries | **1,088** | **1,088** | **1,088** |
| | **2,116** | **2,116** | **2,116** |
| At 31 December 2009 | | | |
| Other payables and accruals | 872 | 872 | 872 |
| Amounts due to related companies | 12,603 | 12,603 | 12,603 |
| Amounts due to subsidiaries | 1,088 | 1,088 | 1,088 |
| | 14,563 | 14,563 | 14,563 |

The table below summarises the maturity analysis of term loans with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. As a result, these amounts were greater than the amounts disclosed in the "on demand" time band in the maturity analysis above. Taking into account the Company's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

| | Maturity analysis – Term loans subject to a repayment on demand clause based on scheduled repayments | | | | | |
|---|---|---|---|---|---|---|
| | On demand HK$'000 | Within 1 year HK$'000 | More than 1 year but less than 2 years HK$'000 | More than 2 year but less than 5 years HK$'000 | More than 5 years HK$'000 | Total Undiscounted cash outflows HK$'000 |
| **At 31 December 2010** | **–** | **594** | **594** | **1,783** | **941** | **3,912** |
| At 31 December 2009 | – | – | – | – | – | – |

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### 39.6 Fair values measurements recognised in the consolidated statement of financial position

The Group adopted the amendments to HKFRS 7 Improving Disclosures about Financial Instruments effective from 1 January 2010. These amendments introduce a three-level hierarchy for fair value measurement disclosures and additional disclosures about the relative reliability of fair value measurements.

The following table presents financial assets measured at fair value in the statement of financial position in accordance with the fair value hierarchy. The hierarchy groups financial assets into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets. The fair value hierarchy has the following levels:

– Level 1: quoted prices (unadjusted) in active markets for identical assets;

– Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived form prices); and;

– Level 3: inputs for the asset that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial asset is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

The financial assets and liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy as follows:

| | 2010 | | | |
|---|---|---|---|---|
| | Level 1<br>HK$'000 | Level 2<br>HK$'000 | Level 3<br>HK$'000 | Total<br>HK$'000 |
| **Assets** | | | | |
| Financial assets at fair value through profit or loss | | | | |
| – Listed equity investments in Hong Kong | 2,136 | – | – | 2,136 |

## 40. CAPITAL MANAGEMENT

The Group's objectives when managing capital are:

(a) to safeguard the Group's ability to continue as a going concern, so that it continues to provide returns and benefits for shareholders and other stakeholders;

(b) to support the Group's stability and growth; and

(c) to provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group currently does not adopt any formal dividend policy. The capital structure of the Group comprises only ordinary shares amounted to approximately HK$6,658,000 (2009: HK$11,896,000).

The gearing ratio at the reporting date is as follows:

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Total debts | | |
| – Bank Borrowings | **3,735** | – |
| Total assets | **231,586** | 41,379 |
| Gearing ratio | **2%** | – |

At 31 December 2010, the Group's gearing ratio increased to 2% following the bank borrowings granted during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirement.

## 41. CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities at the end of reporting date.

At 31 December 2010, the Company had corporate guarantee of approximately HK$3,735,000 (2009: Nil) given to a bank to secure a mortgage loan to Art Tour Limited, a directly wholly-owned subsidiary of the Company. 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.

## 42. COMPARATIVES

As further explained in note 10, the comparative consolidated statement of comprehensive income and its corresponding notes have been represented in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" as if the operation discontinued during the current year had been discontinued at the beginning of the comparative period.

## 43. SUBSEQUENT EVENTS

### 1. Acquisition of 51% of the shares in the capital of Head Return Limited and 51% of the shares in the capital of Expand Pacific Limited

On 18 November 2010, the Company entered into an acquisition agreement with Mr. Sin as the vendor for the Company's purchase of 51 shares, representing 51% of all the issued shares in the capital, of each of Head Return Limited and Expand Pacific Limited at a consideration of HK$300,000,000 payable as to HK$30,000,000 by cash, as to HK$148,500,000 by issue of 135 million new Shares of HK$0.01 each in the capital of the Company at an issue price of HK$1.1 per Share and as to HK$121,500,000 by issue of the Convertible Bonds, in aggregate, convertible into 110,454,545 shares of HK$0.01 each in the capital of the Company (the "Acquisition"). The Acquisition was completed on 28 February 2011 and further details of the Acquisition are set out in the announcement dated 18 November 2010.

### 2. Placing of shares

On 18 November 2010, the Company entered into the placing agreement between Orient Securities Limited as the placing agent and the Company for the placing of up to 400,000,000 shares of HK$0.01 each in the capital of the Company ("Placing Shares") at a price to be agreed by the parties thereto subject to a minimum of HK$1.1 per share. The placing agreement was approved at the Special General Meeting on 23 February 2011.

### 3. Issue of convertible bonds

Pursuant to a special resolution passed on 23 February 2011, the Company has resolved to issue convertible bonds ("CB") in 2 batches. The issue of CB in the principal amount of HK$71,500,000 to Mr. Sin with a maturity date due on 28 February 2014 (the "CB1"). The CB1 will, at the option of Mr. Sin, be convertible at any time after 1 March 2011 into ordinary shares of the Company at an initial conversion price of HK$1.1 per share subject to adjustment in the event of bonus issue or free distribution of the shares of the Company, subdivision, consolidations, capital distribution, rights issue and issues of shares at less than the conversion price by the Company. The interest rate of the CB1 is 1% on the outstanding principal amount of the CB1 from time to time payable on each anniversary day of the issue of CB1.

Another CB issued in the principal amount of HK$50,000,000 to Mr. Sin with a maturity date due on 28 February 2017 (the "CB2"). The conversion period of the CB2 is any time after receipt of a confirmation that the Guaranteed Profits have been accomplished. Details of the proposed terms of the CB are set out in the Company's circular dated 7 February 2011.

A summary of the financial results and the assets, liabilities and equity of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below. This summary does not form part of the audited financial statements.

## FINANCIAL RESULTS

| | 2010<br>HK$'000 | 2009<br>HK$'000 | 2008<br>HK$'000 | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|---|---|---|
| Revenue/Turnover | | | | | |
| – Continuing operations | 10,505 | 48 | 4,745 | 11,331 | 539 |
| – Discontinued operations | 375 | 5,447 | 10,751 | 14,692 | 15,278 |
| Revenue/Turnover | 10,880 | 5,495 | 15,496 | 26,023 | 15,817 |
| (Loss)/Profit before income tax | (36,407) | 20,314 | (33,610) | (25,033) | (27,498) |
| Income tax expense | – | – | – | – | – |
| Loss for the year | (36,407) | 20,314 | (33,610) | (25,033) | (27,498) |
| Attributable to: | | | | | |
| Owners of the Company | (36,407) | 20,314 | (33,610) | (25,033) | (27,330) |
| Minority interests | – | – | – | – | (168) |
| | (36,407) | 20,314 | (33,610) | (25,033) | (27,498) |

## ASSETS, LIABILITIES AND EQUITY

| | 2010<br>HK$'000 | 2009<br>HK$'000 | 2008<br>HK$'000 | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|---|---|---|
| Total assets | 231,586 | 41,379 | 17,833 | 40,825 | 55,518 |
| Total liabilities | (13,092) | (30,930) | (78,096) | (67,590) | (57,514) |
| | 218,494 | 10,449 | (60,263) | (26,765) | (1,996) |
| Equity attributable to the owners of the Company | 218,494 | 10,449 | (60,263) | (26,765) | (1,996) |
| Minority interests | – | – | – | – | – |
| | 218,494 | 10,449 | (60,263) | (26,765) | (1,996) |

**NOTICE IS HEREBY GIVEN THAT** the annual general meeting (the "Meeting") of National Arts Holdings Limited (the "Company") will be held at Unit B, 2/F, Jone Mult Factory Building, 169 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong on Thursday, 5 May 2011 at 10:30 a.m. for the following purposes:–

1. to receive and consider the audited financial statements of the Company for the year ended 31 December 2010 together with the reports of the board of directors of the Company (the "Board") and the auditors of the Company;

2. to re-elect directors of the Company (the "Directors") and authorise the Board to fix the Directors' remuneration;

3. to re-appoint the auditors of the Company and authorise the Board to fix their remuneration;

4. to consider as special business and, if thought fit, pass, with or without modification, the following resolution as an ordinary resolution:

   "**THAT**:

   (a) subject to paragraph (c) of this resolution, and pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited ("Stock Exchange"), the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the share capital of the Company and to make or grant offers, agreements and options (including but not limited to warrants, bonds and debentures convertibles into shares of the Company) which might require the exercise of such power be and is hereby generally and unconditionally approved;

   (b) the approval in paragraph (a) of this resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options (including but not limited to warrants, bonds and debentures convertibles into shares of the Company) which might require the exercise of such powers after the end of the Relevant Period;

   (c) the aggregate nominal value of share capital allotted or agreed conditionally or unconditionally to be allotted or issued (whether pursuant to options or otherwise) by the Directors pursuant to the approval in paragraph (a) of this resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) the grant or exercise of any option under the share option scheme of the Company or any other option scheme or similar arrangement for the time being adopted for the grant or issue to any officers and/or other participants of such scheme or arrangement of shares or rights to acquire shares of the Company; or (iii) any scrip dividend scheme or similar arrangement providing for the allotment and issue of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the articles of association of the Company in force from time to time; or (iv) an issue of shares in the Company upon the exercise of subscription or conversion rights attaching to any warrants which may be issued by the Company from time to time or any existing securities of the Company which carry rights to subscribe for or are convertible into shares of the Company, shall not exceed 20% of the aggregate nominal value of the share capital of the Company in issue at the date of passing of this resolution, and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

(d) for the purpose of this resolution,

"Relevant Period" means the period from the date of the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company, or any applicable law of the Cayman Islands to be held; and

(iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking, varying or renewing the authority given to the Directors by this resolution; and

"Rights Issue" means an offer of shares in the Company, or offer or issue of warrants, options or other securities giving the right to subscribe for shares, open for a period fixed by the Directors to holders of shares whose names appear on the register of shareholders of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to the Company, or any recognised regulatory body or any stock exchange applicable to the Company)."

5. to consider as special business and, if thought fit, pass, with or without modification, the following resolution as an ordinary resolution:

"**THAT**:

(a) subject to paragraph (b) of this resolution, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all powers of the Company to repurchase its shares on the GEM or any other stock exchange on which the shares of the Company may be listed and recognised by The Securities and Futures Commission of Hong Kong ("SFC") and the Stock Exchange for such purpose, and otherwise in accordance with the rules and regulations of the SFC, the Stock Exchange or of any other stock exchange as amended from time to time and all applicable laws in this regard, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal value of shares of the Company authorised to be repurchased by the Company pursuant to the approval in paragraph (a) of this resolution during the Relevant Period shall not exceed 10% of the aggregate of the total nominal value of the issued share capital of the Company at the date of the passing of this resolution, and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

(c) for the purpose of this resolution, "Relevant Period" means the period from the date of the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company, or any applicable law of the Cayman Islands to be held; and

(iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking, varying or renewing the authority given to the Directors by this resolution."

6. to consider as special business and, if thought fit, pass, with or without modification, the following resolution as an ordinary resolution:

"**THAT** conditional upon resolutions nos. 4 and 5 being passed, the unconditional general mandate granted to the Directors and for the time being in force to exercise the powers of the Company to allot, issue and deal with any additional shares in the share capital of the Company and to make or grant offers, agreements and options (including but not limited to warrants, bonds and debentures convertibles into shares of the Company) which might require the exercise of such power pursuant to resolution no. 4 above be and is hereby extended by the addition thereto of an amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company under the authority granted pursuant to resolution no. 5 above, provided that such extended amount shall not exceed 10% of the aggregate nominal value of the issued share capital of the Company at the date of the passing of the said resolution."

7. "**THAT** subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the shares in the share capital of the Company (representing a maximum of 10% of the shares in issue as at the date of passing this Resolution) to be issued pursuant to the exercise of options which may be granted under the share option scheme adopted by the Company on 29 September 2010 ("the Share Option Scheme") and any other share option schemes of the Company, the refreshment of the scheme limit on grant of options under the Share Option Scheme and any other share option schemes of the Company up to 10% of the shares in issue as at the date of passing this Resolution ("the Refreshed Scheme Limit") be and is hereby approved and the directors of the Company be and is hereby authorized to do such acts and execute such documents to implement the Share Option Scheme within the Refreshed Scheme Limit."

By Order of the Board
**National Arts Holdings Limited**
**Tang Yat Ming Edward**
*Chief Executive Officer*

Hong Kong, 31 March 2011

Principal place of business in Hong Kong:
Unit B 2/F Jone Mult Factory Building
169 Wai Yip Street
Kwun Tong
Kowloon, Hong Kong

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Notes:

1. Every shareholder of the Company entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a shareholder of the Company.

2. A form of proxy in respect of the annual general meeting is enclosed herewith. Whether or not you intend to attend the annual general meeting in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon.

3. In order to be valid, the form of proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited with the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai,, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or, as the case may be, any adjournment thereof.

4. Delivery of an instrument appointing a proxy shall not preclude a shareholder from attending and voting in person at the Meeting if the shareholder of the Company so desires and in such event, the instrument appointing a proxy shall be deemed to be revoked.

5. Where there are joint registered holders of any shares of the Company ("Shares"), any one of such holders may vote at the annual general meeting, either personally or by proxy, in respect of such Shares as if he were solely entitled thereto, but if more than one of such joint holders be present at the annual general meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such Shares shall alone be entitled to vote in respect thereof. Several executors or administrators of a deceased member in whose name any Share stands shall for this purpose be deemed joint holders thereof.