National Arts

National Arts Holdings Limited

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

Annual Report 2011

Characteristics of the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Exchange")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination of GEM is publication on the internet website operated by the Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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

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Corporate Information

BOARD OF DIRECTORS

Chairman and Non-executive Director

Mr. Sin Kwok Lam

Vice Chairperson, Executive Director and Chief Executive Officer

Miss Law Po Yee

Vice Chairman and Non-executive Director

Mr. Lam Kwok Hing Wilfred

Executive Directors

Mr. Chow Kai Weng
Miss Sin Ho Yee

Non-executive Director

Mr. Li Sin Hung Maxim

Independent Non-executive Directors

Mr. Chan Tin Lup Trevor
Mr. Chui Chi Yun Robert
Dr. Wong Lung Tak Patrick

COMPANY SECRETARY

Mr. Chan Man Hung

COMPLIANCE OFFICER

Miss Law Po Yee

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

SHARE REGISTRAR AND TRANSFER OFFICES

Principal share registrar and transfer office

Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Hong Kong branch share registrar and transfer office

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

AUTHORISED REPRESENTATIVES

Miss Law Po Yee
Mr. Chow Kai Weng

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

AUDITOR

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

Chairman's Statement

To all Shareholders,

On behalf of the Board of Directors of National Arts Holdings Limited, I am pleased to present the results performance report of the Group for the year ended 31 December 2011.

The Group is unwaveringly committed to promoting creative culture as well as tourism and entertainment industry, with a vision to constantly develop cultural projects with potential. In the past year, significant progress was made in the construction of a number of cultural projects of the Group. The initial series of projects included the Xiqiao Mountain "Wong Tai Sin Temple" and "Ti Tsang Wang Temple". Vigorous efforts were made to step up this focused project in Guangdong Province. Although the Group has not yet officially launched promotion initiatives, an average of 5,000 to 10,000 visits were paid by worshipers on a monthly basis at present, thus contributing to ticket sales for the Group during the year. We expect that there will be a rise in the number of visitors along with the increasing visibility of these attractions and the completion of other attractions. In addition, the Group and a company owned by Xiqiao Town People's Government has earlier entered into an agreement, whereby the Group has obtained the operating rights of the Wong Tai Sin Temple, and will be entitled to 80% of the income of the temple in the next 40 years. The Group has managed to operate the temple by way of management agreement and to obtain a guaranteed income of RMB74.70 million from the local government. This is a reflection that the local government has cast vote of support and confidence in the local tourism. The Group believes that this project will bring a steady source of income contribution.

The "Xiqiao Mountain Dream Park" is located in 4A scenic spot zone, Foshan City, Guangdong Province, and covers a total area of 677,000 square metres. This park functions as a shooting studio base. On top of this, it also embodies world-wide success elements such as the U.S. Universal Studios and leisure resort hotels, and incorporates tourism and recreational facilities such as a theme park, a five-star hotel, a platinum five-star hotel and a performance venue. This Dream Park is the world's first of its kinds of theme park that combines a variety of diverse projects including studios and hotels. The project is expected to be completed this year and put into full operation next year. With the commission of cultural and recreational projects during the current year and next year, the Dream Park will become an all-round tourist destination and will create financial contribution for the Group in the next few financial years.

According to the Mainland China's "12th Five-Year Plan", the State Council has resolved to support the PRC studio production and the tourism and culture development. This is in line with the Group's direction for development. Xiqiao Mountain Project is included as one of the 20 key tourism and culture projects in Guangdong Province, and is also a national 4A-level scenic spot that attracts over 2 million visits from visitors on a yearly basis. Thanks to the national policy, Xiqiao Mountain will become a major tourism project in Guangdong Province and will present enormous development opportunities for the Xiqiao Mountain Dream Park Project. Xiqiao Mountain and Xiqiao Mountain Dream Park Project will create synergies between each other and fuel a remarkable tourist growth for each other.

Chairman's Statement

On front of artiste management, during the year, our artists Mr. To Yu Hang, Dennis（杜宇航先生）and Miss Chan Ka Woon, Rose（陳嘉桓小姐）performed in different films and TV shows, and also served as brand spokespersons and participated in advertising photography. They are very famous and popular in Hong Kong, China and Southeast Asia. Artiste management is expected to give positive impetus to the business growth of the Group.

In film production, during the period, the Group completed "The Woman Knight of Mirror Lake - Qiu Jin" (《競雄女俠-秋瑾》), whose contents of theme are based on the life story of Qiu Jin, who advocates to get rid of feudalism and struggles for freedom. Although the box office performance of the film was not as satisfactory as expected, the positive messages of the film received widespread recognition from the market and the industry. We are currently in the course of preparation for "Ip Man: The Final Chapter" (《葉問終極篇》). The shooting of this film will commence in August this year, and will be conducted in the studio zone in our Dream Park on the spot. Following "The Legend Is Born – Ip Man" (《葉問前傳》), "Ip Man: The Final Chapter" (《葉問終極篇》) is expected to set off a craze for Wing Chun (Chinese martial art) once again. At the same time, the film will lead a growth in both the number of visits to our studio and the hotel occupancy rate in the future. The Group is fully confident of this investment.

National Arts Holdings has gathered extensive experience in the entertainment industry and has built a professional team of staff. Looking ahead towards the coming year, the Group will continue to seek and explore other development opportunities related to entertainment and film, with a view to diversifying the Group's entertainment business.

PROSPECTS

In 2011, in light of the robust growth of the PRC market, coupled with the support of the government policies on tourism and cultural industries, the Group benefited from its focus on film and entertainment business. With active efforts on promoting the tourism in recent years, Guangdong Province ranks second in the rankings of the "2011 total tourism income in various provinces across the country", with a total tourism revenue of RMB486 billion yuan, representing an increase of 26%. Driven by this favourable factor, the Group will accelerate the development of the "Xiqiao Mountain Dream Park" Project and further enhance the tourism resources of the Xiqiao Mountain, in order to elaborate the synergies between the project and the tourism.

Xiqiao Mountain Dream Park Project

Under the support of the central government, the domestic film industry is developing rapidly, thereby stimulating a substantial growth in the demand for shooting venues. Upon the acquisition of Head Return Limited and Expand Pacific Limited, the Group is actively devoting resources on the development of the "Xiqiao Mountain Dream Park" Project in Foshan City, Guangdong Province. By making reference to the U.S. Universal Studios, we have created a dream park which covers an area of 677,000 square metres and which is the world's first of its kinds of park incorporating a variety of diverse projects such as tourism and studios. These projects include:

1. a film shooting base with a couple of shooting scenic spots

2. a theme park

3. a five-star hotel

4. a platinum five-star hotel

5. a multi-functional performance venue

6. Xiqiao"Wong Tai Sin Temple" and "Ti Tsang Wang Temple"

The relevant projects are all-round tourist destinations that blend entertainment, tourism, leisure, culture and religion. In view of the policies of the PRC government as well as the development of films and tourism, these projects will provide the Group with infinite business opportunities in the PRC market. The project will be completed in phases from 2011 onwards, and will be fully completed and put into commission in 2013.

"Wong Tai Sin Temple" and "Ti Tsang Wang Temple"

The "Wong Tai Sin Temple" and "Ti Tsang Wang Temple" were opened in late 2011. Among these projects, Wong Tai Sin saint statue made of 99% pure gold with a weight of 52.1 kg (being the world's heaviest statue) attracted the most attention. Moreover, the temple is furnished with a wider diversity of travel elements that are of attractions to tourists, including the handwritten 5,000-word Daodejing（道德經）(the Taoism Scripture) with a size of 19 m x 2.7 m, hand-painted murals with a total area of 1,000 square metres, sterling silver cornucopia with a diameter of 1 metre, and a gold brick with a weight of 15 kg,

The Xiqiao Wong Tai Sin Temple upholds the superior tradition of "free-of-charge medical treatment and medicine". After the opening of the temple, "Lucky Bag Distribution Charity Event" to send warmth to local residents. Also, two mobile medical treatment vehicles were provided to facilitate the daily delivery of free medical treatment and medicine to residents in remote mountainous areas with the lack of medical treatment facilities and medicine. The Xiqiao Wong Tai Sin Temple will set up a medical centre that offers free-of-charge medical treatment and medicine in the future, in order to spread the spirit of love.

The Xiqiao Wong Tai Sin Temple has attracted the visits of many worshipers since its opening. In particular, tourist arrivals reached a peak during the Lunar New Year, with more than 5,000 attendance per month. The temple has become one of the most famous attractions in the region. The Group and Xiqiao Town People's Government has earlier entered into an agreement, whereby the Group is entitled to a guaranteed revenue of not less than RMB 74.70 million in the next 40 years. This guarantee provides the Group with a stable source of income.

Film Shooting Base

The Group is fully gearing towards the construction of the largest film shooting base in South China region. The entire project will be completed in phases in 2012 to 2013. The completion of the project will generate satisfactory financial contribution for the Group. The major scenic spots include Shanghai Street, Hong Kong Street and Canton Street which will be completed in the second half of 2012. Japan Street, the Water Towns in Southern Yangtze River, the Ming-Qing Dynasty Palace, the Ancient Village and the Qing-Ming Festival Riverside Scene will be completed in the first half of 2013. The film shooting base can provide diversified and practical scenes for crews in Mainland China and Hong Kong, and is expected to attract a lot of studio production companies in Mainland China and Hong Kong due to its supreme geographical location and good climate. Following the gradual opening of the studio, the Group expects that it will be able to raise the admission fees for the Xiqiao Mountain scenic spots and will thus bring greater benefits for the Group.

Management Discussion and Analysis

Hotel Project

The five-star hotel will be completed in the fourth quarter of 2012 and will provide 350 rooms for travelers. The design of the hotel will be based on a gorgeous style that incorporates the Greek colour elements, in order to create a European-style resort for travelers. In addition, the Group will also construct a platinum five-star hotel in Xiqiao Mountain. The hotel is expected to be completed and put into operation in 2013.

At the same time, with the expected completion of the theme park and performance venue relating to the "Xiqiao Mountain Dream Park" Project in stages in 2012 to 2013, financial contribution can be generated for the Group in the next financial year.

Film Production

The PRC film industry grows swiftly in recent years. The box office in China reached RMB10 billion last year, revealing huge potential. The Group is full of confidence in film production. During the period under review, we produced "The Woman Knight of Mirror Lake – Qiu Jin"（《競雄女俠ー秋瑾》）which was promoted to the Greater China market, The positive messages of the film such as the struggle for freedom and the protest against the feudal system received extensive appreciation and recognition from the industry. The Group plans to produce "Ip Man: The Final Chapter"（《葉問終極篇》）in 2012. The script and casting of the film has been ascertained. We are currently in the course of preparation for shooting, which is going to be conducted in the studio on the spot in August this year. "Ip Man: The Final Chapter"（《葉問終極篇》）is anticipated to set off a craze for Wing Chun (Chinese martial art) once again and strengthen the Group's visibility, while attracting more visits to the studio from visitors and bringing more flows of visitors to the studio.

Artiste Management

In addition to the films produced by the Group, the Group's rising artists Mr. To Yu Hang, Dennis（杜宇航先生）and Miss Chan Ka Woon, Rose（陳嘉桓小姐）will take part and perform in different movies and TV shows and will also serve as spokespersons and participate in advertising photography in the future. This will contribute positive impact on the Group's visibility. In view of the ongoing consultations of a huge amount of jobs, the Group expects that artiste management will bring bigger contribution for the Company's financial position and will foster further expansion of this business segment. Furthermore, the Group will also seek other opportunities related to the artiste management industry.

FINANCIAL REVIEW

Results

During the year under review, the Group reported a turnover of approximately HK$16.1 million, an increase of 53% as compared to the turnover in previous year for the continuing operations. The turnover was mainly attributable to the film and artiste management business, while part of the revenue was generated from the new business of film studio in the PRC.

Cost of film production for the year under review increased approximately HK$12.5 million due to film products amortised for the movie "The Woman Knight of Mirror Lake – Qiu Jin".

Staff costs for the year under review increased to approximately HK$20.5 million from approximately HK$12.5 million in previous year. An increase of approximately HK$8 million in staff cost was mainly due to the share options granted to directors and employees and increase of number of staff during the year under review.

Finance costs for the year under review increased approximately HK$7.8 million mainly due to the interest on convertible bonds, which were issued as part of the consideration for the acquisition of 51% each of Head Return Limited and Expand Pacific Limited during the year.

Gain on change in fair value of investment property for the year under review was approximately HK$129.4 million due to revaluation of the land and construction of film studio.

For the year ended 31 December 2011, the Group recorded a net profit HK$29.1 million as compared to net loss of the preceding year of approximately HK$36.4 million.

Liquidity and Financial Resources

	2011	2010
	HK$'000	HK$'000
Current assets	**69,355**	205,444
Current liabilities	**38,212**	13,092
Current ratio	**181.5%**	1,569.2%

Current ratio as at 31 December 2011 was 181.5% (2010: 1,569.2%). As at 31 December 2011, the Group's total cash and cash equivalents amounted to approximately HK$21.3 million (2010: HK$160.8 million).

Dividend

The directors do not recommend payment of a final dividend for the year ended 31 December 2011 (2010: Nil).

Capital Structure and Gearing Ratio

The shares of the Company were listed on the GEM of the Stock Exchange on 17 October 2002. The capital of the Company comprises only ordinary shares. As at 31 December 2011, 801,254,139 ordinary shares were issued and fully paid.

	2011		2010	
	Amount HK$'000	**Relative %**	Amount HK$'000	Relative %
Finance lease liabilities	**17,280**	**2.9%**	–	–
Bank borrowings – secured	**3,191**	**0.5%**	3,735	1.7%
Convertible bonds (liability component)	**85,287**	**14.0%**	–	–
Total borrowings	**105,758**	**17.4%**	3,735	1.7%
Equity	**500,061**	**82.6%**	218,494	98.3%
Total capital employed	**605,819**	**100.0%**	222,229	100.0%

The Group's gearing ratio was approximately 17.4% as at 31 December 2011 (2010: 1.7%). If the Convertible Bonds (liability component) amounted to HK$85.3 million were to be excluded, the underlying gearing ratio was 3.4% only. The increase in the gearing ratio was due to the issue to Mr. Sin Kwok Lam (Chairman and Non-executive Director) ("Mr. Sin") of the convertible bonds in the principal amount of HK$121.5 million (the "Convertible Bonds") as part of the consideration to acquire HRL, EPL and their Xiqiao Mountain Dream Park Project. The total amount of the liability component of the Convertible Bonds is estimated to be HK$85.3 million. The Convertible Bonds bears 1% interest per annum; the principal amount of HK$121.5 million was separated into: (i) CB1 – HK$71.5 million has a maturity date of 28 February 2014, and (ii) CB2 – HK$50.0 million has a maturity date of 28 February 2017; and both are convertible into shares of the Company at the initial conversion price of HK$1.1 per share (subject to adjustment according to the terms of the convertible bonds). As the conversion price of the Convertible Bonds is still below the current market price of the Company's share, it is likely that the convertible bonds will be converted into shares of the Company by the bondholder in the future and thus relieving the obligations of the Company to repay the convertible bonds.

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

Foreign Exchange Exposure

The Group's reporting currency is expressed in Hong Kong dollars. During the reporting period for the year ended 31 December 2011, most of the transactions, assets and liabilities of the Group were denominated in Hong Kong dollars and Renminbi. During the period under review, since the Group had both Hong Kong dollars and Renminbi receipts and payments, the net Renminbi exposure was not significant. The Board considers that the Group's exposure to foreign exchange risk was not significant; therefore, no hedging transaction was made during the period under review.

Material Acquisitions or Disposal of Subsidiaries and Affiliated Companies

Save for the acquisition of HRL, EPL and their Xiqiao Mountain Dream Park Project and the disposal of the network infrastructure and electrical installation services businesses, during the year ended 31 December 2011, the Group did not acquire or dispose of any significant investment.

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

Other than those disclosed, the Group did not have any plan for substantial investments or capital assets.

Subsequent Events

1. *Construction agreement and operation management agreement of Wong Tai Sin Temple*

On 29 February 2012, HRL has entered into two agreements, namely: (a) a construction management agreement ("Construction Agreement") with Foshan City Nanhai District Xiqiaoshan Forest Park Materials Company (佛山市南海區西樵山森林公園物資公司) (the "Local Government Company"), an independent third party, which is wholly-owned by the People's Government of Xiqiao Town, Nanhai District, Foshan, in connection with the construction of Wong Tai Sin Temple (the "Temple") located in the Xiqiao Mountain Dream Park (西樵山夢工場主題公園) (the "Dream Park"), Foshan, Guangdong; and (b) an operation management agreement ("Operation Management Agreement") with Foshan City Nanhai District Xiqiao Wong Tai Sin Temple (佛山市南海區西樵黃大仙祠) (the "Religious Organisation"), an independent third party, which is an approved organisation to carry out religious activities in the PRC, in relation to provision of certain management services.

Regarding to the Construction Agreement, the Local Government Company appoints HRL to construct the Temple in the Dream Park. Upon completion of the construction, HRL shall hand over the Temple to the Local Government Company after final inspection and the Local Government Company shall assign the Temple to the Religious Organisation to operate. The consideration for construction of the Temple payable by the Local Government Company to HRL shall be RMB 74,700,000 (equivalent to approximately HK$92,000,000) and the Local Government undertakes that HRL shall be entitled 70% of gross income of the Temple for the whole period of 40 years commencing from the hand-over of the Temple and will be paid on a monthly basis as settlements of the consideration and the related interest.

In relation to the Operation Management Agreement, the Religious Organisation shall appoint HRL to provide promotion and non-religion related management and administrative services for the Temple for 40 years commencing from the signing of the Operation Management Agreement on 29 February 2012 and the management fee will be paid by the Religious Organisation to HRL at the amount equal to 10% of gross income of the Temple on a monthly basis.

The management expects the hand-over of the Temple would be on 29 February 2012, and the consideration of construction and the management fee income would be received commencing from 29 February 2012.

As at 31 December 2011, included in other receivables was an amount of approximately HK$5.2 million, which represented the promotional expenses for the Temple paid by the Group on behalf of the Local Government Company. The amount would be settled as part of the consideration of the abovementioned transaction.

2. *Sale of property*

On 18 January 2012, the Group entered into a sale and purchase agreement with an independent third party to sell a property located in Hong Kong at a consideration of HK$9,800,000. This transaction has been completed on 16 March 2012.

3. *Loan agreement*

On 13 January 2012, the Group entered into a loan agreement with First Credit Limited, which is controlled by Mr. Sin Kwok Lam, an non-executive director of the Company, for a loan of HK$9,900,000. The loan is unsecured, bearing an interest rate of 12% per annum and will be due for repayments on 11 January 2013.

Contingent Liabilities

Other than disclosed, the Group did not have any material contingent liabilities at the end of reporting date.

Employee and Remuneration Policy

As at 31 December 2011, the Group had a total of 87 (2010: 27) 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 33, was appointed as the Vice Chairman of the Board on 26 October 2010, as an Executive Director of the Company on 5 August 2010 and as Chief Executive Officer of the Company on 9 May 2011. 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. Chow Kai Weng, aged 27, joined the Group in January 2010. Mr. Chow holds a bachelor degree of Business Administration with previous experiences in media and financial industries. Mr. Chow was appointed as Executive Director on 25 March 2011.

Miss Sin Ho Yee, aged 27, joined the Group in March 2011. Miss Sin holds a diploma of Communication from the Melbourne Institute of Business and Technology. Miss Sin was appointed as Executive Director on 25 March 2011.

NON-EXECUTIVE DIRECTORS

Mr. Sin Kwok Lam, aged 54, was appointed as the Chairman of the Board and the Executive Director of the Board on 31 May 2010. Mr. Sin was re-designated from an Executive Director to a Non-executive Director in October 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 is the Chairman and Executive Director of First Credit Holdings Company Limited (stock code: 8215).

Mr. Lam Kwok Hing, Wilfred*, JP.* aged 53, was appointed as the Non-executive Vice Chairman of the Board on 5 August 2010. He 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. Mr. Lam has been appointed Justice of the Peace of the Hong Kong Special Administrative Region since 1999 and awarded Queen's Badge of Honour in January 1997. Mr. Lam holds a Bachelor's degree in Law with honours from the University of Hong Kong. He is a practising solicitor in Hong Kong and is a consultant lawyer of WT Law Offices. He also holds the professional qualification of Estate Agent's (Individual) Licence in Hong Kong. Being an active member in social and charity activities, Mr. Lam is a Support Force Commander of the Civil Aid Service, Ex Officio Member of New Territories Heung Yee Kuk, Chairman of the Friends of the Community Chest (Kwai Tsing District), Honorary Advisor and Former Vice President of Junior Police Call (Kwai Tsing District), member of and Former Chairman of the Fight Crime Committee (Kwai Tsing District) and Director and Former Chairman of the Community Development Fund (Kwai Tsing District) in Hong Kong. He is also an executive member of the liaison association of the Chinese People's Political Consultative Conference, Guangdong Province. He is an executive director and group vice president of Hong Kong Resources Holdings Company Limited (stock code: 2882); a non-executive director of The Hong Kong Building and Loan Agency Limited (stock code: 145); an independent non-executive director of Value Convergence Holdings Limited (stock code: 821) and PME Group Limited (stock code: 379), the aforesaid companies are listed on the Main Board of the Stock Exchange.

Mr. Li Sin Hung Maxim, aged 41, 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 re-designated from an Executive Director to a Non-executive Director in May 2011. Prior to the re-designation, Mr. Li was an Executive Director since May 2009.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Tin Lup Trevor, aged 52, 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 55, 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 64, 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 degree of Philosophy in Business, 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 (BBS) 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, Real Nutriceutical Group Limited and Winox Holdings 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 2011.

PRINCIPAL ACTIVITIES

The Company is principally engaged in investment holding. The principal activities of the Group include film production and distribution, the provision of management services to artistes, operations of studio, theme park and hotels and provision of information technology solutions including web solutions and system integration.

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 2011 are set out in the consolidated statement of comprehensive income on pages 33 to 34.

No dividend was paid during the year. The Board does not recommend the payment of a dividend for the year ended 31 December 2011 (2010: 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 122.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in property, plant and equipment and investment properties of the Group and the Company during the year are set out in note 15 and note 16, respectively, to the consolidated financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 18 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 34 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 35 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2011, the Company has approximately HK$55 million reserves available for distribution to shareholders (2010: approximately HK$76 million).

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

Vice Chairperson 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 – resigned on 1 June 2011
Mr. Chow Kai Weng – appointed on 25 March 2011
Miss Sin Ho Yee – appointed on 25 March 2011

Non-executive Directors:

Mr. Li Sin Hung Maxim – re-designated from Executive Director on 9 May 2011

Independent Non-executive Directors:

Mr. Chan Tin Lup Trevor
Mr. Chui Chi Yun Robert
Dr. Wong Lung Tak Patrick

In accordance with Bye-law 84 of the Bye-laws of the Company, Mr. Sin Kwok Lam, Miss Law Po Yee, Mr. Lam Kwok Hing, Wilfred, Mr. Chow Kai Weng and Miss Sin Ho Yee 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 2011, the interests and short positions of the Directors and chief executive of the Company and their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

1. Long Positions in the shares of the Company

	Name of Directors	Capacity/ Nature of interest	Number of shares	Interest in controlled corporation	Total	Approximate percentage of the issued share capital of the Company
(a)	The Company (Ordinary shares of HK$0.01 each)					
	Mr. Sin Kwok Lam (Note 1)	Beneficial owner	190,083,000	–	190,083,000	23.72%
		Interest of spouse	6,672,000	–	6,672,000	0.83%
	Miss Law Po Yee (Note 1)	Beneficial owner	6,672,000	–	6,672,000	0.83%
		Interest of spouse	190,083,000	–	190,083,000	23.72%
(b)	Head Return Limited (Ordinary shares of HK$1.00 each)					
	Mr. Sin Kwok Lam	Beneficial owner	49	–	49	49%
	Miss Law Po Yee (Note 2)	Interest of spouse	49	–	49	49%
(c)	Expand Pacific Limited (Ordinary shares of HK$1.00 each)					
	Mr. Sin Kwok Lam	Beneficial owner	49	–	49	49%
	Miss Law Po Yee (Note 2)	Interest of spouse	49	–	49	49%

Note 1: Mr. Sin and Miss Law beneficially owned 196,755,000 Shares, representing approximately 24.55% of the issued share capital of the Company. By virtue of SFO, Miss Law, the spouse of Mr. Sin, was deemed to be interested in all the Shares in which Mr. Sin was interested.

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

2. Rights to acquire shares in the Company

i. Post-IPO Share Option Scheme

Details of grantees	Date of grant	Exercise Price per share (HK$)	Exercisable period	Number of share options: As at 1 January 2011	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 31 December 2011
Mr. Sin Kwok Lam (Director)	29 September 2010	0.48	29 September 2010 to 2 September 2020	48,000,000	–	–	–	48,000,000
Miss Law Po Yee (Director)	29 September 2010	0.48	29 September 2010 to 2 September 2020	24,000,000	–	–	–	24,000,000
Mr. Lam Kwok Hing Wilfred (Director)	29 September 2010	0.48	29 September 2010 to 2 September 2020	3,250,000	–	–	–	3,250,000
Mr. Lam Kwok Hing Wilfred (Director)	13 May 2010	0.61	13 May 2010 to 12 May 2020	1,500,000	–	–	–	1,500,000
Mr. Chow Kai Weng (Director)	29 September 2010	0.48	29 September 2010 to 2 September 2020	150,000	–	–	–	150,000
Mr. Li Sin Hung Maxim (Director)	20 May 2010	0.564	20 May 2010 to 19 May 2020	150,000	–	–	–	150,000
Mr. Chui Chi Yun, Robert (Director)	13 May 2010	0.61	13 May 2010 to 12 May 2020	200,000	–	–	–	200,000
Mr. Chan Tin Lup, Trevor (Director)	20 May 2010	0.564	20 May 2010 to 19 May 2020	200,000	–	–	–	200,000
Dr. Wong Lung Tak, Patrick (Director)	20 May 2010	0.564	20 May 2010 to 19 May 2020	200,000	–	–	–	200,000
Mr. Tang Yat Ming, Edward (Former Director)**	13 May 2010	0.61	13 May 2010 to 12 May 2020	400,000	–	400,000	–	–
Mr. Poon Shu Yan Joseph (Former Director)*	20 May 2010	0.564	20 May 2010 to 19 May 2020	100,000	–	–	100,000	–
Mr. Poon Shu Yan Joseph (Former Director)*	10 November 2006	3.53	10 November 2006 to 9 November 2016	883,841	–	–	883,841	–

* resigned on 15 November 2010

** resigned on 1 June 2011

ii. New Share Option Scheme

Details of grantees	Date of grant	Exercise Price per share (HK$)	Exercisable period	Number of share options: As at 1 January 2011	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 31 December 2011
Mr. Sin Kwok Lam (Director)	28 March 2011	1.28	28 March 2012 to 27 March 2021	–	20,000,000	–	–	20,000,000
Miss Law Po Yee (Director)	28 March 2011	1.28	28 March 2012 to 27 March 2021	–	20,000,000	–	–	20,000,000
Mr. Lam Kwok Hing Wilfred (Director)	28 March 2011	1.28	28 March 2012 to 27 March 2021	–	11,200,000	–	–	11,200,000
Mr. Chow Kai Weng (Director)	28 March 2011	1.28	28 March 2012 to 27 March 2021	–	350,000	–	–	350,000
Miss Sin Ho Yee (Director)	28 March 2011	1.28	28 March 2012 to 27 March 2021	–	8,000,000	–	–	8,000,000
Mr. Li Sin Hung Maxim (Director)	28 March 2011	1.28	28 March 2012 to 27 March 2021	–	50,000	–	–	50,000
Mr. Chui Chi Yun, Robert (Director)	28 March 2011	1.28	28 March 2012 to 27 March 2021	–	200,000	–	–	200,000
Dr. Wong Lung Tak, Patrick (Director)	28 March 2011	1.28	28 March 2012 to 27 March 2021	–	200,000	–	–	200,000
Mr. Chan Tin Lup, Trevor (Director)	28 March 2011	1.28	28 March 2012 to 27 March 2021	–	200,000	–	–	200,000
Employees	28 March 2011	1.28	28 March 2012 to 27 March 2021	–	8,300,000	–	8,000,000	300,000

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

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

Note: The Convertible Bonds with an outstanding principal amount of HK$121.5 million as at 31 December 2011, were issued by the Company to Mr. Sin on 1 March 2011 following the completion of the agreement entered between the Company and Mr. Sin, in connection with the acquisition of 51 shares, representing 51% of all the issued shares in the capital, of each of HRL and EPL. The Convertible Bonds bears 1% interest per annum; the principal amount of HK$121.5 million was separated into: (i) CB1 – HK$71.5 million has a maturity date of 28 February 2014, and (ii) CB2 – HK$50.0 million has a maturity date of 28 February 2017; and are convertible into shares of the Company at the initial conversion price of HK$1.1 per share (subject to adjustment according to the terms of the convertible bonds). Miss Law is the spouse of Mr. Sin and is deemed to be interested in such underlying shares of the Company under the SFO.

Save as disclosed above, none of the Directors, Chief Executive or their associates had, as at 31 December 2011, any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

Other than as disclosed above, at no time during the 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.

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

As at 31 December 2011, 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	154,965,333	19.34%

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 2011, the share options to subscribe for an aggregate of 196,507 shares of the Company granted pursuant to the Pre-IPO Share Option Scheme were outstanding. A portion of each grantee's right to exercise the options that has been conditionally granted under the Pre-IPO Share Option Scheme shall be deemed to have vested on 17 June 2002 (such portion is fixed on the basis of the grantee's employment period and/or contribution to the Group and is set in the table below) and the rest of the right shall continue to vest over a period of not more than 4 years from 17 June 2002 (the "Listing Date") on a monthly basis each time from 1/48th of the total number of shares comprised in the options and, subject to that no options granted under the Pre-IPO Share Option Scheme can be exercised before the expiration of 1 year from the Listing Date, any vested right shall remain exercisable for 10 years from the date of acceptance of the relevant options. No further options will be offered or granted under the Pre-IPO Share Option Scheme as the right to do so ends on 9 October 2002, being the date of publication of the Prospectus.

The details of the Pre-IPO Share Option Scheme as at 31 December 2011 are set out as follows:

		Number of share options			
Category of participants	**Exercise price per share** (HK$)	**As at 1 January 2011**	**Exercised during the period**	**Lapsed during the period**	**Outstanding as at 31 December 2011**
Advisors and consultants	3.06	196,507	–	–	196,507

Post-IPO Share Option Scheme

As at 31 December 2011, the share options to subscribe for an aggregate of 77,650,000 shares of the Company granted pursuant to the Post-IPO Share Option Scheme were outstanding. The details of the Post-IPO Share Option Scheme as at 31 December 2011 are set out as follows:

Category of Participants	Exercise Price Per share (HK$)	Date of grant	Number of share options: As at 1 January 2011	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 31 December 2011
Directors	3.53	10 November 2006	883,841	–	–	883,841	–
Directors	0.61	13 May 2010	2,100,000	–	400,000	–	1,700,000
Directors	0.564	20 May 2010	650,000	–	–	100,000	550,000
Directors	0.48	29 September 2010	75,400,000	–	–	–	75,400,000
Total			79,033,841	–	400,000	983,841	77,650,000

New Share Option Scheme

As at 31 December 2011, the share options to subscribe for an aggregate of 60,500,000 shares of the Company granted pursuant to the New Share Option Scheme were outstanding. The details of the New Share Option Scheme as at 31 December 2011 are set out as follows:

Category of Participants	Exercise Price Per share (HK$)	Date of grant	Number of share options: As at 1 January 2011	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 31 December 2011
Directors	1.28	28 March 2011	–	51,200,000	–	–	51,200,000
Directors	1.28	28 March 2011	–	9,000,000	–	–	9,000,000
Employees	1.28	28 March 2011	–	8,300,000	–	8,000,000	300,000
Total			–	68,500,000	–	8,000,000	60,500,000

DIRECTORS' INTERESTS IN CONTRACTS

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. The aforesaid transaction was completed on 28 February 2012.

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$187,000 (2010: HK$139,000).

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

During the year ended 31 December 2011, 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 78.6% of the Group's turnover for the year. The Group's largest customer accounted for approximately 61.6% of its turnover.

The five largest suppliers of the Group accounted for approximately 19.7% of the Group's purchases for the year. The Group's largest supplier accounted for approximately 10.3% 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 2011. Please refer to the Corporate Governance Report on pages 25 to 30 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 2011.

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 2011.

Please refer to the Corporate Governance Report on pages 25 to 30 for details.

AUDITOR

The financial statements for the year ended 31 December 2009 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 and 2011 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

Law Po Yee
Chief Executive Officer

Hong Kong, 26 March 2012

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 all of the code provisions set out in the Code on Corporate Governance (the "Code") contained in Appendix 15 of the GEM Listing Rules.

To the best knowledge of the Board, the Company has complied with all of the Code provisions during the year ended 31 December 2011.

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 2011.

BOARD OF DIRECTORS

The Company has a balanced Board composition of Executive and Non-executive Directors. During the year ended 31 December 2011, the Board comprised nine members, three of whom were Executive Directors, three 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 Chairperson and Executive Director:

Miss Law Po Yee

Vice Chairman and Non-executive Director:

Mr. Lam Kwok Hing Wilfred

Executive Directors:

Mr. Chow Kai Weng
Miss Sin Ho Yee

Non-executive Director:

Mr. Li Sin Hung Maxim

Independent Non-executive Directors:

Mr. Chan Tin Lup Trevor
Mr. Chui Chi Yun Robert
Dr. Wong Lung Tak Patrick

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 2011, 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	2/4
Miss Law Po Yee	4/4
Mr. Lam Kwok Hing Wilfred	3/4
Mr. Tang Yat Ming Edward[1]	2/2
Mr. Chow Kai Weng[2]	2/3
Miss Sin Ho Yee[2]	0/3
Mr. Li Sin Hung Maxim[3]	4/4
Mr. Chui Chi Yun Robert	4/4
Mr. Chan Tin Lup Trevor	4/4
Dr. Wong Lung Tak Patrick	4/4

1 resigned on 1 June 2011

2 appointed on 25 March 2011

3 re-designated from Executive Director to Non-executive Director on 9 May 2011

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 (resigned on 9 May 2011)/Miss Law Po Yee (appointed on 9 May 2011), 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 been required by the Bye-laws to retire by rotation once every three years.

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 2011 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

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. 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 2011 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	4/4

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 2011, 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 auditor of the Company regarding its reporting responsibilities on the financial statements is set out in the Independent Auditor's Report, which is on pages 31 to 32 of this annual report.

AUDITORS' REMUNERATION

During the year ended 31 December 2011, the Group had engaged Messrs. BDO Limited to provide the following services and their respective fees charged are set out below:

	Fee paid/payable HK$'000
Audit services rendered	460
Non-audit services rendered	179

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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To the shareholders of National Arts Holdings 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 33 to 121, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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.

AUDITOR'S 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.

AUDITOR'S RESPONSIBILITY *(Continued)*

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 the 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 2011 and of the Group's profit 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

Hong Kong, 26 March 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
CONTINUING OPERATIONS			
Revenue/Turnover	5	**16,116**	10,505
Other operating income		**4,175**	452
Cost of film production		**(39,067)**	(26,567)
Staff costs	13	**(20,495)**	(12,462)
Depreciation of property, plant and equipment		**(1,984)**	(1,137)
Amortisation of land lease prepayments		**(5,719)**	–
Other operating expenses		**(18,555)**	(6,486)
Finance costs	7	**(8,207)**	(385)
Change in fair value of investment properties	16	**129,375**	–
Gain on disposals of subsidiaries	40	**2,216**	–
Profit/(Loss) before income tax	8	**57,855**	(36,080)
Income tax expense	9	**(32,344)**	–
Profit/(Loss) for the year from continuing operations		**25,511**	(36,080)
DISCONTINUED OPERATIONS			
Profit/(Loss) for the year from discontinued operations	10	**3,556**	(327)
Profit/(Loss) for the year		**29,067**	(36,407)
Other comprehensive income			
Exchange differences on translation of financial statements of foreign operations		**1,904**	21
Other comprehensive income for the year		**1,904**	21
Total comprehensive income for the year		**30,971**	(36,386)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Profit/(Loss) for the year attributable to:			
Owners of the Company	11	**(11,410)**	(36,407)
Non-controlling interests		**40,477**	–
		29,067	(36,407)
Total comprehensive income for the year attributable to:			
Owners of the Company		**(10,433)**	(36,386)
Non-controlling interests		**41,404**	–
		30,971	(36,386)
Basic loss per share for loss attributable to the owners of the Company during the year	12		
From continuing and discontinued operations		**(HK1.46 cents)**	(HK8.65 cents)
From continuing operations		**(HK1.92 cents)**	(HK8.57 cents)
Diluted loss per share for loss attributable to the owners of the Company during the year	12		
From continuing and discontinued operations		**N/A**	N/A
From continuing operations		**N/A**	N/A

Consolidated Statement of Financial Position

As at 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	59,446	17,168
Investment properties	16	440,775	–
Land lease prepayments	17	92,759	–
Goodwill	19	8,974	8,974
		601,954	26,142
Current assets			
Film products	20	–	3,933
Film production in progress	21	4,090	32,247
Trade receivables	22	6,982	2,656
Inventories	23	1,111	–
Prepayments, deposits and other receivables		24,234	3,645
Financial assets at fair value through profit or loss	24	11,611	2,136
Cash and cash equivalents	25	21,327	160,827
		69,355	205,444
Current liabilities			
Trade payables	26	335	2,067
Other payables and accruals		28,629	7,282
Amount due to a director	27	4,182	–
Bank borrowings	30	3,191	3,735
Finance lease obligation	31	1,875	–
Provision for income tax		–	8
		38,212	13,092
Net current assets		31,143	192,352
Total assets less current liabilities		633,097	218,494

Consolidated Statement of Financial Position

As at 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current liabilities			
Convertible bonds	32	85,287	–
Finance lease obligation	31	15,405	–
Deferred tax liabilities	33	32,344	–
		133,036	–
Net assets		500,061	218,494
EQUITY			
Equity attributable to the owners of the Company			
Share capital	34	8,012	6,658
Reserves	35	281,344	211,836
		289,356	218,494
Non-controlling interests		210,705	–
Total equity		500,061	218,494

Director *Director*

Law Po Yee **Sin Kwok Lam**

Statement of Financial Position

As at 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	193	245
Interests in subsidiaries	18	9,010	9,010
		9,203	9,255
Current assets			
Prepayments, deposits and other receivables		682	721
Financial assets at fair value through profit or loss	24	11,611	2,136
Amounts due from subsidiaries	28	333,400	56,728
Cash and cash equivalents	25	4,831	150,929
		350,524	210,514
Current liabilities			
Other payables and accruals		916	1,028
Amount due to a subsidiary	29	333	1,088
		1,249	2,116
Net current assets		349,275	208,398
Total assets less current liabilities		358,478	217,653
Non-current liabilities			
Convertible bonds	32	85,287	–
Net assets		273,191	217,653
EQUITY			
Share capital	34	8,012	6,658
Reserves	35	265,179	210,995
Total equity		273,191	217,653

Director
Law Po Yee

Director
Sin Kwok Lam

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Equity attributable to the owners of the Company							
	Share Capital HK$'000	Share premium HK$'000	Special reserve HK$'000 (note 35)	Contributed surplus HK$'000 (note 35)	Translation reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
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 (note 34(a))	35,689	71,378	–	–	–	–	–	107,067
Share issued under placing of new shares (note 34(d))	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 34(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*	78,791*	308*	9,455*	–	218,494

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Equity attributable to the owners of the Company										
	Share Capital	Share premium	Special reserve	Contributed surplus	Translation reserve	Share option reserve	Convertible bond equity reserve	Accumulated losses	Total	Non-controlling interest	Total equity
	HK$'000	HK$'000	HK$'000 (note 35)	HK$'000 (note 35)	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2011	6,658	122,282*	1,000*	78,791*	308*	9,455*	–	–	218,494	–	218,494
Issue of shares (note 34(e))	1,350	4,540	–	–	–	–	–	–	5,890	–	5,890
Shares issued under share option scheme	4	318	–	–	–	(78)	–	–	244	–	244
Issue of convertible bonds (note 32)	–	–	–	–	–	–	62,754	–	62,754	–	62,754
Arising from acquisition of subsidiaries (note 41)	–	–	–	–	–	–	–	–	–	169,301	169,301
Employee share-based compensation	–	–	–	–	–	12,606	–	–	12,606	–	12,606
Share issue expenses	–	(199)	–	–	–	–	–	–	(199)	–	(199)
Transactions with owners	1,354	4,659	–	–	–	12,528	62,754	–	81,295	169,301	250,596
Profit for the year	–	–	–	–	–	–	–	(11,410)	(11,410)	40,477	29,067
Other comprehensive income											
Exchange differences on translation of financial statements of foreign operations	–	–	–	–	977	–	–	–	977	927	1,904
Total comprehensive income for the year	–	–	–	–	977	–	–	(11,410)	(10,433)	41,404	30,971
Upon disposals of subsidiaries	–	–	–	–	(287)	–	–	287	–	–	–
Transfer of lapsed options to accumulated losses	–	–	–	–	–	(981)	–	981	–	–	–
At 31 December 2011	**8,012**	**126,941***	**1,000***	**78,791***	**998***	**21,002***	**62,754***	**(10,142)***	**289,356**	**210,705**	**500,061**

* The aggregate amount of these balances of HK$281,344,000 (2010: HK$211,836,000) in surplus is included as reserves in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Cash flows from operating activities			
Profit/(Loss) before income tax, including profit/(loss) from discontinued operations		61,411	(36,407)
Adjustments for:			
Finance costs		8,207	385
Interest income		(42)	(1)
Dividend income		(512)	–
Write off of other receivables		–	46
Write off of other payables		–	(106)
Amortisation of film product		31,193	21,817
Impairment of film product		7,874	4,750
Amortisation of land lease prepayments		5,719	–
Depreciation of property, plant and equipment		1,984	1,137
Change in fair value of financial assets at fair value through profit or loss		3,934	(208)
Change in fair value of investment properties		(129,375)	–
Loss on disposals of property, plant and equipment		–	91
Gain on disposals of subsidiaries	40	5,772	–
Equity settled share-based payment expenses		12,606	8,496
Operating cash flows before movements in working capital		8,771	–
Increase in inventories		(1,111)	–
Increase in film production in progress		(6,977)	(48,056)
(Increase)/Decrease in trade receivables		(4,326)	6,879
Increase in prepayments, deposits and other receivables		(18,370)	(2,225)
Payment of financial assets at fair value through profit or loss		(13,409)	(1,928)
Decrease in trade payables		(1,732)	(9,159)
Increase in other payables and accruals		12,425	407
Net cash used in operating activities		(24,729)	(54,082)
Cash flows from investing activities			
Decrease in pledged bank deposits		–	200
Interest received		42	1
Dividend received		512	–
Acquisition of subsidiaries, net of cash acquired	41	(28,597)	–
Purchases of property, plant and equipment		(2,660)	(18,163)
Additions of construction in progress		(38,145)	–
Additions of investment properties	40	(45,599)	–
Proceeds from disposals of property, plant and equipment		–	3
Net cash used in investing activities		(114,447)	(17,959)

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Cash flows from financing activities			
Repayment to related companies		–	(12,715)
Interest paid		(50)	(385)
Receipts of short-term borrowings		–	23,960
Repayment of short-term borrowings		(544)	(20,225)
Proceeds from shares issued under share option scheme		244	–
Proceeds from placing of new shares and shares under open offer		–	243,867
Share issue expenses		(199)	(7,932)
Net cash (used in)/generated from financing activities		(549)	226,570
(Decrease)/Increase in cash and cash equivalents		(139,725)	154,529
Cash and cash equivalents at 1 January		160,827	6,277
Effect of foreign exchange rate changes		225	21
Cash and cash equivalents at 31 December	25	21,327	160,827

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 is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

The Company's principal place of business in Hong Kong is Unit B, 2/F Jone Mult Industrial Building, 169 Wai Yip Street, Kowloon, Hong Kong

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 18 to the consolidated financial statements. The Company and its subsidiaries are referred to as the Group hereafter.

The consolidated financial statements on pages 33 to 121 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.

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 2011:

HKFRSs (Amendments)	Improvements to HKFRSs 2010
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments
HKAS 24 (Revised)	Related Party Disclosures

Other than as noted below, the adoption of the New HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

HKFRS 3 (Amendment) – Business Combinations

As part of the Improvements to HKFRSs issued in 2010, HKFRS 3 has been amended to clarify that the option to measure non-controlling interests ("NCI") at either fair value or the NCI's proportionate share in the amounts of the acquiree's identifiable net assets is limited to instruments that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation. Other components of NCI are measured at their acquisition date fair value unless another measurement basis is required by HKFRSs. The Group has amended its accounting policies for measuring NCI but the adoption of the amendment has had no impact on the Group's financial statements as the NCI in the business acquisition in 2011 represented such present ownership interests.

HKAS 24 (Revised) – Related Party Disclosures

HKAS 24 (Revised) amends the definition of related party and clarifies its meaning. This may result in changes to those parties who are identified as being related parties of the reporting entity. The Group has revised its accounting policy for the identification of its related parties and has reassessed counterparties of transactions in accordance with the revised definition. The reassessment did not result in new related parties being identified. Related parties identified in prior years remain unchanged under the new accounting policy and the Group concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous years.

HKAS 24 (Revised) also introduces simplified disclosure requirements applicable to related party transactions where the Group and the counterparty are under the common control, joint control or significant influence of a government, government agency or similar body. These new disclosures are not relevant to the Group because the Group is not a government related entity.

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

New or amended HKFRSs that have been issued but are not yet effective

At the date of approval of these financial statements, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group for the year ended 31 December 2011.

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets[1]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[4]
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets[2]
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income[3]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[5]
HKFRS 9	Financial Instruments[6]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangements[4]
HKFRS 12	Disclosure of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurement[4]
HKAS 27 (2011)	Separate Financial Statements[4]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[4]
HKAS 19 (2011)	Employee Benefits[4]
HK(IFRIC) – Interpretation 20	Stripping Costs of the Production Phase of a Surface Mine[4]

Notes:

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

Amendments to HKAS 12 – Deferred Tax – Recovery of Underlying Assets

The amendments to HKAS 12 introduce a rebuttable presumption that an investment property measured at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The amendments will be applied retrospectively.

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

New or amended HKFRSs that have been issued but are not yet effective *(Continued)*

Amendments to HKAS 1 (Revised) – Presentation of Items of Other Comprehensive Income

The amendments change the disclosure of items presented in other comprehensive income in the statement of comprehensive income and require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled will be presented separately from items that may be recycled in the future. Entities that choose to present other comprehensive income items before tax will be required to show the amount of tax related to the two groups separately. The title used by HKAS 1 for the statement of comprehensive income has changed to "Statement of profit or loss and other comprehensive income". However, HKAS 1 permits entities to use other titles.

HKFRS 9 Financial instruments

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, classification 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 de-recognition of financial assets and financial liabilities.

HKFRS 10 Consolidated Financial Statements

HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them. The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor.

An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The implementation of HKFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing HKAS 27 on other consolidation related matters are carried forward unchanged. HKFRS 10 is applied retrospectively subject to certain transitional provisions.

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

New or amended HKFRSs that have been issued but are not yet effective *(Continued)*

HKFRS 13 Fair Value Measurement

HKFRS 13 provides a single source of guidance on how to measure fair value when it is required or permitted by other standards. The standard applies to both financial and non-financial items measured at fair value and introduces a fair value measurement hierarchy. The definitions of the three levels in this measurement hierarchy are generally consistent with HKFRS 7 "Financial Instruments: Disclosures". HKFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The standard removes the requirement to use bid and ask prices for financial assets and liabilities quoted in an active market. Rather the price within the bid-ask spread that is most representative of fair value in the circumstances should be used. It also contains extensive disclosure requirements to allow users of the financial statements to assess the methods and inputs used in measuring fair values and the effects of fair value measurements on the financial statements. HKFRS 13 can be adopted early and is applied prospectively.

The Group is in the process of making an assessment of the potential impact of these new or amended HKFRSs that have been issued but are not yet effective and the directors of the Company so far concluded that the application of these or amended 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 Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

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

3.2 Business combination and basis of consolidation *(Continued)*

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using 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 interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

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 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, 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. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary 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 those non-controlling interest having a deficit balance.

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 3.10).

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 at 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 and electrical installation 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.

Advertising income is recognised when the advertisements are published.

Entrance fee income is recognised when the tickets are accepted and surrendered by the customer.

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

3.7 Property, plant and equipment

Property, plant and equipment, other than construction in progress ("CIP"), are stated at acquisition cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use.

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, depreciation method and estimated residual values are reviewed, and adjusted if appropriate, at each reporting date.

CIP represents plant and building under construction and is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction. CIP is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.8 Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment properties) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes, or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment properties are recognised in profit or loss in the year of the retirement or disposal.

3.9 Land lease prepayments

Land lease prepayments represent the premium associate with the favorable operating lease to acquire long-term interests in lessee-occupied properties. The prepayments are stated at cost and are amortised over the period of the lease on a straight-line basis as an expense.

3.10 Impairment of non-financial assets

The following assets are subject to impairment testing:

– Goodwill arising on acquisition of subsidiaries;

– Film products and film production in progress;

– Land lease prepayments;

– 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)*

3.10 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 reognised 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)*

3.11 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 3.10). 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.

3.12 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.

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in investment properties which is measured initially at cost including transaction costs and subsequently stated at fair value to reflect market conditions at the end of the reporting period. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

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

3.13 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)*

3.13 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)*

3.13 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.

3.14 Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using first-in first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

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

3.15 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)*

3.15 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.

3.16 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.

3.17 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)*

3.18 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 People's Republic of China (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)*

3.19 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.

3.20 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 3.21).

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)*

3.20 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 contain liability and equity components

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

Convertible bond issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate for similar non-convertible debts. The difference between the proceeds of the issue of the convertible bond and the fair value assigned to the liability component, representing the call option for conversion of the bond into equity, is included in equity as convertible bonds equity reserve.

The liability component is subsequently carried at amortised cost using the effective interest method. The equity component will remain in equity until conversion or redemption of the bond.

When the bond is converted, the convertible bonds equity reserve and the carrying value of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, the convertible bonds equity reserve is released directly to accumulated losses.

Other financial liabilities

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

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

3.21 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.

3.22 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)*

3.23 Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

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

3.24 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.

3.25 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 3.10. 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.

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.

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

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 its estimated future revenue less the relevant costs, its 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.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation of fair value of investment properties

The principle assumptions for the Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs. In the absence of current prices in an active market for similar properties, the Group considers information from recent prices of similar properties on less activate markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices. The carrying amount of investment properties at 31 December 2011 was HK$440,775,000 (2010: Nil).

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	
	2011	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Films production income	**11,983**	9,742	**–**	–	**11,983**	9,742
Artiste management fee income	**3,697**	763	**–**	–	**3,697**	763
Network infrastructure and electrical installation services income	**–**	–	**–**	375	**–**	375
Entrance fee income	**299**	–	**–**	–	**299**	–
Others	**137**	–	**–**	–	**137**	–
	16,116	10,505	**–**	375	**16,116**	10,880

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 operating segments. No operating segments have been aggregated to form the following reportable segments.

Digital solution services	–	Provision of information technology solutions including web solutions and system integration
Films production and distribution and artiste management	–	Production and distribution of films and provision of management services to artistes
Film studio and theme park operation	–	Operation of film studio and theme park
Hotel operation	–	Operation of hotel

In 2010, the operation of network infrastructure and electrical installation services was discontinued. The segment information reported in the following does not include any amounts for this discontinued operation, 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:

	Films production and distribution and artiste management	Film studio and theme park operation	Hotel operation	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2011				
Reportable segment revenue	**15,680**	**436**	**–**	**16,116**
Reportable segment (loss)/profit	**(27,365)**	**122,283**	**(4,428)**	**90,490**
Other operating income				**390**
Gain on disposals of subsidiaries				**2,216**
Change in fair value of financial assets at fair value through profit or loss				**(3,934)**
Unallocated corporate expenses				**(23,100)**
Finance costs				**(8,207)**
Profit before income tax from continuing operations				**57,855**
Year ended 31 December 2010				
Reportable segment revenue	10,505	–	–	10,505
Reportable segment loss	(16,410)	–	–	(16,410)
Other operating income				452
Unallocated corporate expenses				(19,737)
Finance costs				(385)
Loss before income tax from continuing operations				(36,080)

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales during the year (2010: 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 subsidiaries, 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

	Digital solution services HK$'000	Films production and distribution and artiste management HK$'000	Film studio and theme park operation HK$'000	Hotel operation HK$'000	Total HK$'000
At 31 December 2011					
Reportable segment assets	–	26,665	501,013	112,669	640,347
Financial assets at fair value through profit or loss					11,611
Property, plant and equipment					15,997
Unallocated					3,354
Consolidated assets					671,309
Reportable segment liabilities	–	(2,286)	(28,695)	(18,972)	(49,953)
Convertible bonds					(85,287)
Bank borrowings					(3,191)
Deferred tax liabilities					(32,344)
Unallocated					(473)
Consolidated liabilities					(171,248)
At 31 December 2010					
Reportable segment assets	44	60,438	–	–	60,482
Unallocated					171,104
Consolidated assets					231,586
Reportable segment liabilities	(92)	(951)	–	–	(1,043)
Unallocated					(12,049)
Consolidated liabilities					(13,092)

6. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

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

– all assets are allocated to reportable segments other than corporate assets; and

– all liabilities are allocated to reportable segments other than corporate liabilities.

Other segment information

	Films production and distribution and artiste management HK$'000	Film studio and theme park operation HK$'000	Hotel operation HK$'000	Total HK$'000
Year ended 31 December 2011				
Depreciation of property, plant and equipment	**736**	**201**	**6**	**943**
Amortisation of land lease payments	**–**	**3,848**	**1,871**	**5,719**
Amortisation of film products	**31,193**	**–**	**–**	**31,193**
Impairment of film products	**7,874**	**–**	**–**	**7,874**
Change in fair value of investment properties	**–**	**(129,375)**	**–**	**(129,375)**
Additions to non-current assets	**–**	**441,997**	**88,458**	**530,455**
Year ended 31 December 2010				
Depreciation and amortisation	180	–	–	180
Additions to non-current assets	2,004	–	–	2,004

Geographical information

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

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

Information about major customers

Included in the revenues arising from provision of film production and distribution and artiste management are revenues of approximately HK$9,848,000 (2010: HK$8,634,000) which arose from film products distribution from the Group's largest customers.

7. FINANCE COSTS

	Continuing operations		Discontinued operations		Consolidated	
	2011	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Interest on short-term borrowings	**–**	360	**–**	–	**–**	360
Interest on secured bank borrowings wholly repayable within five years	**50**	25	**–**	–	**50**	25
Interest on convertible bonds	**7,720**	–	**–**	–	**7,720**	–
Finance lease charges	**437**	–	**–**	–	**437**	–
	8,207	385	**–**	–	**8,207**	385

8. PROFIT/(LOSS) BEFORE INCOME TAX

	Continuing operations		Discontinued operations		Consolidated	
	2011	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Profit/(Loss) before income tax is arrived at after charging/(crediting):						
Write off of other payables	**–**	(106)	**–**	–	**–**	(106)
Write off of other receivables	**–**	–	**–**	46	**–**	46
Auditors' remuneration	**460**	380	**–**	–	**460**	380
Direct operating and subcontracting costs	**–**	–	**–**	627	**–**	627
Amortisation of film products*	**31,193**	21,817	**–**	–	**31,193**	21,817
Depreciation of property, plant and equipment	**1,984**	1,137	**–**	–	**1,984**	1,137
Amortisation of land lease prepayments	**5,719**	–	**–**	–	**5,719**	–
Impairment of film products*	**7,874**	4,750	**–**	–	**7,874**	4,750
Loss on disposal of property, plant and equipment	**–**	91	**–**	–	**–**	91
Minimum lease payments under operating leases in respect of rented premises	**4,069**	827	**–**	–	**4,069**	827
Bank interest income	**(42)**	(1)	**–**	–	**(42)**	(1)
Change in fair value of financial assets at fair value through profit or loss	**3,934**	(208)	**–**	–	**3,934**	(208)
Change in fair value of investment properties	**(129,375)**	–	**–**	–	**(129,375)**	–

* Included in cost of film production

9. INCOME TAX EXPENSE

	2011 HK$'000	2010 HK$'000
Deferred tax		
– Current year	32,344	–
Income tax expense	32,344	–

Hong Kong profits tax is calculated at 16.5% (2010: 16.5%) on the estimated assessable profits for the year. 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 subsidiaries incurred a loss for taxation purposes for both years.

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

	2011 HK$'000	2010 HK$'000
Profit/(Loss) before income tax		
– Continuing operations	57,855	(36,080)
– Discontinued operations	3,556	(327)
	61,411	(36,407)
Tax at the applicable tax rates	10,133	(6,018)
Tax effect of different tax rates of subsidiaries	10,997	–
Tax effect of non-deductible expenses	2,394	2,176
Tax effect of non-taxable revenue	(1,023)	(13)
Tax effect of unrecognised tax losses	9,858	4,420
Tax effect of temporary difference not recognised	(15)	(314)
Over provision for prior year	–	(251)
Income tax expense	32,344	–

10. DISCONTINUED OPERATIONS

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.

On 30 March 2011, the Company completed the disposal of its 100% equity interests in Network Engineering Limited, which carried out the Group's provision of network infrastructure and electrical installation services, to Slivercard Management Limited at a cash consideration of HK$1 (the "Disposal"). The Disposal resulted for a gain of approximately HK$3,556,000 and constituted a related party transaction as the purchaser was controlled by Dr. Poon Shu Yan, a former executive director of the Company who had resigned on 15 November 2010.

The results of the discontinued operation included in the consolidated statement of comprehensive income and the consolidated statement of cash flow is set out below.

	Period from 1 January 2011 to 30 March 2011 HK$'000	Year ended 31 December 2010 HK$'000
Profit/(Loss) for the year from the discontinued operation		
Revenue/Turnover (note 5)	–	375
Direct operating and subcontracting costs	–	(627)
Staff costs	–	(18)
Other operating expenses	–	(57)
Loss before income tax	–	(327)
Income tax expense	–	–
Loss after income tax	–	(327)
Gain on disposal of subsidiaries (note 40)	3,556	–
Profit/(Loss) for the year from the discontinued operation	3,556	(327)
Cash flows used in discontinued operation		
Net cash used in operating activities	–	(211)
Net cash outflow	–	(211)

11. LOSS FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

The consolidated loss attributable to the owners of the Company for the year includes a loss of HK$25,757,000 (2010: HK$33,205,000) which has been dealt with in the financial statements of the Company.

12. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

From continuing and discontinued operations

The calculation of basic loss per share is based on the loss attributable to the owners of the Company of HK$11,410,000 (2010: HK$36,407,000) and the weighted average of approximately 779,268,000 (2010: approximately 420,894,000) ordinary shares in issue during the year. Diluted loss per share for loss attributable to the owners of the Company for the years ended 31 December 2011 and 2010 was not presented because the impact of the exercise of the share options and warrants is anti-dilutive.

From continuing operations

The calculation of basic loss per share for loss attributable to the owners of the Company from continuing operations is based on the loss for the year from continuing operations of HK$14,966,000 (2010: HK$36,080,000) and the weighted average number of approximately 779,268,000 (2010: approximately 420,894,000) ordinary shares in issue during the year. Diluted loss per share for loss attributable to the owners of the Company from continuing operations for the years ended 31 December 2011 and 2010 was not presented because the impact of exercise of the share options and warrants is anti-dilutive.

From discontinued operations

The calculation of basic and diluted earnings/(loss) per share from discontinued operations attributable to the owners of the Company is based on the following data:

	2011 '000	2010 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	779,268	420,894
Effect of dilutive potential ordinary shares:		
Share options	39,877	N/A
Warrants	62,440	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings per share computation	881,585	N/A

12. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE COMPANY *(Continued)*

From discontinued operations *(Continued)*

Basic earnings per share for profit attributable to the owners of the Company from discontinued operations is HK0.46 cent (2010: basic loss per share of HK0.08 cent), based on the profit for the year from discontinued operations of HK$3,556,000 (2010: loss of HK$327,000) and the weighted average number of approximately 779,268,000 (2010: approximately 420,894,000) ordinary shares in issue during the year.

Diluted earnings per share for profit attributable to the owners of the Company from discontinued operations for the year ended 31 December 2011 is HK0.40 cent, based on the profit for the year from discontinued operations of HK$3,556,000 and the weighted average of approximately 881,585,000 ordinary shares outstanding during the year. Diluted loss per share for loss attributable to the owners of the Company from discontinued operations for the year ended 31 December 2010 was not presented because the impact of the exercise of the share options and warrants is anti-dilutive.

13. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	Continuing operations		Discontinued operations		Consolidated	
	2011	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Salaries and allowances	**7,702**	3,827	**–**	18	**7,702**	3,845
Equity settled share-based payment expenses	**12,606**	8,496	**–**	–	**12,606**	8,496
Retirement benefit costs	**187**	139	**–**	–	**187**	139
	20,495	12,462	**–**	18	**20,495**	12,480

14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

14.1 Directors' emoluments

	Fees HK$'000	Salaries and allowances HK$'000	Equity settled share-based payment expenses HK$'000	Retirement benefit costs HK$'000	Total HK$'000
Year ended 31 December 2011					
Executive directors					
Ms. Law Po Yee	–	500	4,167	12	4,679
Ms. Sin Ho Yee[1]	–	94	1,667	5	1,766
Mr. Chow Kai Weng[1]	–	328	73	9	410
Mr. Tang Yat Ming[2]	–	214	–	5	219
Non-executive directors					
Mr. Sin Kwok Lam	–	980	4,167	12	5,159
Mr. Lam Kwok Hing, Wilfred	40	–	2,334	–	2,374
Mr. Li Sin Hung, Maxim[3]	62	–	10	–	72
Independent non-executive directors					
Mr. Chan Tin Lup, Trevor	40	–	42	–	82
Mr. Chiu Chi Yun, Robert	40	–	42	–	82
Dr. Wong Lung Tak, Patrick	40	–	42	–	82
	222	2,116	12,544	43	14,925

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

14.1 Directors' emoluments *(Continued)*

	Fees HK$'000	Salaries and allowances HK$'000	Equity settled share-based payment expenses HK$'000	Retirement benefit costs HK$'000	Total HK$'000
Year ended 31 December 2010					
Executive directors					
Ms. Law Po Yee[5]	–	206	2,548	3	2,757
Mr. Poon Shu Yan, Joseph[4]	105	–	11	–	116
Mr. Li Sin Hung, Maxim[3]	120	–	17	–	137
Mr. Tang Yat Ming[2]	–	520	78	12	610
Non-executive directors					
Mr. Sin Kwok Lam[7]	–	642	5,096	6	5,744
Mr. Lam Kwok Hing, Wilfred[8]	36	–	636	–	672
Independent non-executive directors					
Mr. Chan Tin Lup, Trevor	36	–	23	–	59
Mr. Chui Chi Yun, Robert	36	–	39	–	75
Dr. Wong Lung Tak, Patrick[6]	34	–	23	–	57
	367	1,368	8,471	21	10,227

Notes:

1. Appointed on 25 March 2011
2. Resigned on 1 June 2011
3. Re-designated as a non-executive director from an executive director on 9 May 2011
4. Resigned on 15 Novemeber 2010
5. Appointed on 5 August 2010
6. Appointed on 3 February 2010
7. Appointed as an executive director on 31 May 2010 and re-designated as a non-executive director on 26 October 2010
8. Re-designated as a non-executive director from an independent non-executive director on 3 February 2010

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2011 and 2010.

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 (2010: four) directors whose emoluments are reflected in the analysis presented in note 14.1 above. The emoluments payable to the remaining one (2010: one) individual during the year are as follows:

	2011 HK$'000	2010 HK$'000
Salaries and allowance	435	175
Equity settled share-based payment expenses	–	16
Retirement benefit costs	8	8
	443	199

The emoluments were within the following band:

	Number of individuals 2011	 2010
NIL to HK$1,000,000	1	1

During the year, no emoluments were paid by the Group to the directors or the one (2010: one) 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	Construction in progress HK$'000	Total HK$'000
At 1 January 2010						
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
Year ended 31 December 2011						
Opening net book amount	**13,435**	**1,128**	**583**	**2,022**	**–**	**17,168**
Additions	**–**	**99**	**393**	**2,168**	**77,601**	**80,261**
Acquisition of subsidiaries (note 41)	**–**	**74**	**46**	**150**	**2,372**	**2,642**
Transfer to investment property (note 16)	**–**	**–**	**–**	**–**	**(39,456)**	**(39,456)**
Depreciation	**(388)**	**(776)**	**(155)**	**(665)**	**–**	**(1,984)**
Exchange realignment	**–**	**–**	**5**	**13**	**797**	**815**
Closing net book amount	**13,047**	**525**	**872**	**3,688**	**41,314**	**59,446**
At 31 December 2011						
Cost	**13,591**	**1,475**	**1,372**	**4,871**	**41,314**	**62,623**
Accumulated depreciation	**(544)**	**(950)**	**(500)**	**(1,183)**	**–**	**(3,177)**
Net book amount	**13,047**	**525**	**872**	**3,688**	**41,314**	**59,446**

Certain of the Group's leasehold land and buildings which had an aggregate net book amount at 31 December 2011 of approximately HK$6,600,000 (2010: HK$6,789,000) were pledged to secure the Group's banking borrowings (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

	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2010			
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
Year ended 31 December 2011			
Opening net book amount	**245**	**–**	**245**
Additions	**5**	**–**	**5**
Depreciation	**(57)**	**–**	**(57)**
Closing net book amount	**193**	**–**	**193**
At 31 December 2011			
Cost	**284**	**200**	**484**
Accumulated depreciation	**(91)**	**(200)**	**(291)**
Net book amount	**193**	**–**	**193**

16. INVESTMENT PROPERTIES

The Group

	2011 HK$'000	2010 HK$'000
At 1 January	–	–
Reclassified from land lease prepayments (note 17)	248,958	–
Reclassified from property, plant and equipment (note 15)	39,456	–
Additions	22,986	–
Change in fair value	129,375	–
At 31 December	440,775	–

The fair value of the Group's investment properties at 31 December 2011 has been arrived at market value basis carried out by RHL Appraisal Limited, an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment properties being valued. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

17. LAND LEASE PREPAYMENTS

The Group

	HK$'000
At 1 January 2011	
Cost	–
Accumulated amortisation	–
Net book amount	–
Year ended 31 December 2011	
Opening net book amount	–
Acquisition of subsidiaries (note 41)	347,436
Reclassified to investment properties (note 16)	(248,958)
Amortisation	(5,719)
Closing net book amount	**92,759**
At 31 December 2011	
Cost	98,478
Accumulated amortisation	(5,719)
Net book amount	**92,759**

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

18. INTERESTS IN SUBSIDIARIES

The Company

	2011 HK$'000	2010 HK$'000
Unlisted shares, at cost	**25,557**	32,616
Less: Provision for impairment	**(16,547)**	(23,606)
	9,010	9,010

Particulars of the Company's subsidiaries at 31 December 2011 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
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
Vertex Media Ltd.	British Virgin Islands	Ordinary US$19,860	100%	–	Investment holding
Vertex TRC Publishing Company Limited	Hong Kong	Ordinary HK$2	–	100%	Inactive
China Hong Kong Power Engineering Company Limited	Hong Kong	Ordinary HK$1	100%	–	Inactive
China Sports Enterprises Limited	Hong Kong	Ordinary HK$1	–	100%	Inactive
National Arts Entertainment Limited	Hong Kong	Ordinary HK$1,500,000	–	100%	Provision of management services to artistes
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 promotional performance services

18. INTERESTS IN SUBSIDIARIES *(Continued)*

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
National Arts Films Production Limited	Hong Kong	Ordinary HK$1,500,000	–	100%	Production and distribution of film
Art Tour Limited	Hong Kong	Ordinary HK$10,000	100%	–	Property investment
National Arts Travel Limited (Formerly known as "National Arts Performance 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
一譽國藝投資咨詢(深圳)有限公司福田分公司	PRC	Registered RMB500,000	–	100%	Inactive
Glory Max Group Limited*	British Virgin Islands	Ordinary US$1	100%	–	Investment holding
Head Return Limited*	Hong Kong	Ordinary HK$100	–	51%	Investment holding
Expand Pacific Limited*	Hong Kong	Ordinary HK$100	–	51%	Investment holding
佛山市匯星酒店有限公司*	PRC	Registered US$1,283,477	–	51%	Hotel operation
佛山市匯首景區開發有限公司*	PRC	Registered US$10,255,974	–	51%	Property development and operation of film studio and theme park
佛山市御品軒商貿有限公司*	PRC	Registered RMB100,000	–	51%	Retailing of souvenirs
佛山市御府飲食有限公司*	PRC	Registered RMB100,000	–	51%	Inactive

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

* Newly acquired/incorporated during the year

19. 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:

	2011 HK$'000	2010 HK$'000
At 1 January		
Gross carrying amount	20,456	20,456
Accumulated impairment losses	(11,482)	(11,482)
Net carrying amount	8,974	8,974
At 31 December		
Gross carrying amount	20,456	20,456
Accumulated impairment losses	(11,482)	(11,482)
Net carrying amount	8,974	8,974

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 10%.

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.

20. FILM PRODUCTS

The Group

	HK$'000
Cost:	
At 1 January 2010	–
Transfer from film production in progress (note 21)	30,500
At 31 December 2010	30,500
Transfer from film production in progress (note 21)	35,134
At 31 December 2011	**65,634**
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
Provided during the year	31,193
Impairment during the year	7,874
At 31 December 2011	**65,634**
Net book amount:	
At 31 December 2011	**–**
At 31 December 2010	3,933

During the year ended 31 December 2011, the directors assessed the recoverable amount of the film products and based on which an impairment loss of HK$7,874,000 (2010: HK$4,750,000) 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.

21. FILM PRODUCTION IN PROGRESS

The Group

	2011 HK$'000	2010 HK$'000
At 1 January	32,247	14,691
Additions	6,977	48,056
Transfer to film products (note 20)	(35,134)	(30,500)
At 31 December	4,090	32,247

22. TRADE RECEIVABLES

The Group

	2011 HK$'000	2010 HK$'000
Trade receivables	6,982	2,656

The Group generally allows a credit period from 60 to 90 days (2010: 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:

	2011 HK$'000	2010 HK$'000
0 to 60 days	5,214	2,628
61 to 90 days	15	10
91 to 180 days	23	10
Over 180 days	1,730	8
	6,982	2,656

At 31 December 2011, trade receivables of HK$5,229,000 (2010: HK$2,628,000) 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$1,753,000 (2010: HK$18,000) which are past due at the reporting date for which the Group has not provided for impairment loss. Trade receivables that are past due but not impaired 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.

22. TRADE RECEIVABLES *(Continued)*

The Group *(Continued)*

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.

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

	2011 HK$'000	2010 HK$'000
91 to 180 days	23	10
Over 180 days	1,730	8
	1,753	18

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

	2011 HK$'000	2010 HK$'000
At 1 January	–	2,167
Amounts written off	–	(2,167)
At 31 December	–	–

23. INVENTORIES

The Group

	2011 HK$'000	2010 HK$'000
Merchandise	1,111	–

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group and the Company

	2011 HK$'000	2010 HK$'000
Listed equity investments in Hong Kong, at market value	11,611	2,136

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

The Group and the Company *(Continued)*

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 2011, fair value loss amounted to HK$3,934,000 (2010: gain of HK$208,000) was recognised in the consolidated statement of comprehensive income.

25. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2011	2010	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000
Cash and cash equivalents	21,327	160,827	4,831	150,929

Cash and cash equivalents represent cash at banks and in hand.

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

At 31 December 2011, included in cash at banks and in hand of the Group was HK$2,829,000 (2010: 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.

26. TRADE PAYABLES

The Group

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:

	2011	2010
	HK$'000	HK$'000
0 to 30 days	312	–
31 to 60 days	19	–
61 to 90 days	4	–
Over 180 days	–	2,067
	335	2,067

27. AMOUNT DUE TO A DIRECTOR

The Group

The amount due is unsecured, interest-free and repayable on demand.

28. AMOUNTS DUE FROM SUBSIDIARIES

The Company

	2011 HK$'000	2010 HK$'000
Amounts due from subsidiaries	447,363	187,175
Less: Provision for impairment	(113,963)	(130,447)
	333,400	56,728

During the year, the directors reviewed the carrying value of the amounts due from subsidiaries with reference to the business operated by these subsidiaries and their net asset values. As at the reporting date, the directors are of the opinion that no additional provision for impairment is necessary in respect of the amounts due from subsidiaries. During the year ended 31 December 2010, an impairment loss of approximately HK$23,887,000 was recognised in the Company's statement of comprehensive income.

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

29. AMOUNT DUE TO A SUBSIDIARY

The Company

The amount due is unsecured, interest-free and repayable on demand.

30. BANK BORROWINGS

The Group

	2011 HK$'000	2010 HK$'000
Current liabilities		
Portion of loans from bank due for repayment within one year	551	537
Portion of loans from banks due for repayment after one year which contain a repayable on demand clause	2,640	3,198
	3,191	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 1.40% to 1.54% (2010: ranging from 1.41% to 1.44%) per annum during the year.

The Group's bank borrowings as at 31 December 2011 were secured by the Group's leasehold land and buildings which had an aggregate amount of approximately HK$6,600,000 (2010: HK$6,789,000) and corporate guarantees executed by the Company.

At 31 December 2011, interest-bearing bank borrowings were due for repayment as follows:

	2011 HK$'000	2010 HK$'000
Within one year	551	537
Term loans due for repayment after one year (Note):		
In the second year	560	553
In the third to fifth years	1,735	1,706
After the fifth year	345	939
	2,640	3,198
Total	3,191	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.

On 16 March 2012, the interest-bearing bank borrowings of HK$3,191,000 have been fully repaid by the Group.

31. FINANCE LEASE OBLIGATION

The Group

Future finance lease payments arising from the leasing of investment properties are due as follows:

	Minimum lease payments 2011 HK$'000	Interest 2011 HK$'000	Present value 2011 HK$'000
Not later than one year	**3,756**	**1,881**	**1,875**
Later than one year but not later than five years	**7,673**	**7,543**	**130**
Later than five years	**62,855**	**47,580**	**15,275**
	74,284	**57,004**	**17,280**

	2010 HK$'000	2010 HK$'000	2010 HK$'000
Not later than one year	–	–	–
Later than one year but not later than five years	–	–	–
Later than five years	–	–	–
	–	–	–

The present values of future lease payments are analysed as:

	2011 HK$'000	2010 HK$'000
Current liabilities	**1,875**	–
Non-current liabilities	**15,405**	–
	17,280	–

32. CONVERTIBLE BONDS

The Group and The Company

	2011 HK$'000	2010 HK$'000
Convertible bonds	85,287	–

On 28 February 2011, the Company issued two batches of convertible bonds with nominal values of HK$71,500,000 ("CB1") and HK$50,000,000 ("CB2") respectively. The principal terms of the convertible bonds are as follows:

	CB1	CB2
Principal amount	HK$71,500,000	HK$50,000,000
Maturity date	28 February 2014	28 February 2017
Coupon rate	1% (per annum)	
Conversion price	HK$1.1 per share	

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

The carrying amount of the convertible bonds was denominated in HK$. At 31 December 2011, the convertible bonds are repayable as follows:

	2011 HK$'000	2010 HK$'000
Within one year	–	–
In the second to fifth years	59,505	–
Over five years	25,782	–
	85,287	–

32. CONVERTIBLE BONDS *(Continued)*

The convertible bonds recognised in the statement of financial position are calculated as follows:

	2011 HK$'000	2010 HK$'000
Fair value of convertible bonds at issue date	140,321	–
Fair value of equity components at issue date	(62,754)	–
Fair value of liability components on initial recognition	77,567	–
Interest expense (note 7)	7,720	–
Liability components at 31 December	85,287	–

At initial recognition, the fair value of the liability component of the convertible bonds was calculated using cash flows discounted at a rate based on the estimated discount rate of 10.50% and 15.62% for CB1 and CB2 respectively. The fair values of the equity component of the convertible bonds are estimated using Binomial Model. The fair values of the convertible bonds were dertermined by an independent firm of professional valuers.

Interest expense on the convertible bonds is calculated using the effective interest method by applying effective interest rate of 10.50% and 15.62% to the liability component for CB1 and CB2 respectively.

As disclosed in note 41 in relation to the acquisition of subsidiaries, the convertible bonds were issued as part of the consideration of the acquisition of 51% equity interests of each of Head Return Limited ("HRL") and Expand Pacific Limited ("EPL") from Mr. Sin Kwok Lam (the "Vendor"), the Chairman and a non-executive director of the Company. The Vendor warrants and guarantees that the total net profits of HRL and EPL (the "Total Net Profits") during the five financial years ending 31 December 2011, 2012, 2013, 2014 and 2015 (the "Guarantee Period") shall be no less than HK$50,000,000 (the "Guaranteed Amount").

If the Total Net Profits in any financial year during such five financial years shall reach or exceed HK$50,000,000, the Guaranteed Amount shall be deemed to have been accomplished. In other words, so long as the Total Net Profits in any one year exceed the Guaranteed Amount, no adjustment to the principal amount of CB2 will be made regardless of whether a loss will be recorded in any or all of the subsequent years.

In view of the expected profits generated from HRL and EPL, the directors are of the opinion that the Guaranteed Amount will be achieved in the Guaranteed Period, and the adjustment to the principal amount of CB2 is not probable.

33. DEFERRED TAX

The Group

Deferred taxation is calculated in full on temporary differences under the liability method using the tax rates applicable in the tax jurisdiction concerned.

The following are the deferred tax liabilities recognised by the Group and movements thereon during the current year.

	Change in fair value of investment properties HK$'000
At 31 December 2010 and 1 January 2011	–
Charge to profit or loss for the year	32,344
At 31 December 2011	**32,344**

The Group and The Company

At the reporting date, the Group and the Company had unused estimated tax losses of approximately HK$236,450,000 (2010: HK$203,595,000) and approximately HK$44,527,000 (2010: HK$45,154,000) respectively, which was subject to the agreement of the Hong Kong Inland Revenue Department and 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.

34. SHARE CAPITAL

	Number of shares		Share capital	
	2011	2010	2011	2010
	'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	665,854	1,189,635	6,658	11,896
Shares issued under open offer (note (a))	–	3,568,906	–	35,689
Share consolidation (note (b))	–	(4,282,687)	–	–
Capital reduction (note (c))	–	–	–	(51,377)
Shares issued under placing of shares (note (d))	–	190,000	–	10,450
Issue of consideration shares (note (e))	135,000	–	1,350	–
Share issued under share option scheme (note (f))	400	–	4	–
At 31 December	801,254	665,854	8,012	6,658

Notes:

(a) 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 shares for every one existing share 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").

34. 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 share 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 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 Madate Placing"). The placing was completed on 2 December 2010.

(e) On 1 March 2011, 135 million new shares of HK$0.01 each were issued to Mr. Sin Kwok Lam as part of the considerations of acquisition of 51% equity interests of each of HRL and EPL (note 41).

(f) On 31 May 2011, 400,000 share options granted on 13 May 2010 were exercised at the exercise price of HK$0.61 each.

35. 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 pages 38 to 39 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.

35. RESERVES *(Continued)*

The Company

	Share premium HK$'000	Capital reserve HK$'000	Convertible bonds equity reserve HK$'000	Contributed surplus HK$'000	Share options reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 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 and 1 January 2011	122,282	2,787	–	76,471	9,455	–	210,995
Issue of shares	4,540	–	–	–	–	–	4,540
Share issued under share option scheme	318	–	–	–	(78)	–	240
Issue of convertible bonds	–	–	62,754	–	–	–	62,754
Employee share-based compensation	–	–	–	–	12,606	–	12,606
Share issue expenses	(199)	–	–	–	–	–	(199)
Loss for the year	–	–	–	–	–	(25,757)	(25,757)
Transfer of lapsed options to accumulated losses	–	–	–	–	(981)	981	–
Transfer to accumulated loss upon disposals of subsidiaries	–	(2,812)	–	–	–	2,812	–
At 31 December 2011	**126,941**	**(25)**	**62,754**	**76,471**	**21,002**	**(21,964)**	**265,179**

35. RESERVES *(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.

36. OPERATING LEASE COMMITMENTS

The Group

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

	2011 **HK$'000**	2010 HK$'000
Within one year	**4,490**	95
In the second to fifth year inclusive	**17,533**	–
Over five years	**177,314**	–
	199,337	95

The Group leased three pieces of land located near Xiqiao mountain in Foshan, the PRC, under operating leases for 20 years commencing from 3 October 2010 and renewable for another 20 years automatically. The leases do not include contingent rentals.

The Company

At 31 December 2011, the Company had no significant operating lease commitments (2010: Nil).

37. CAPITAL COMMITMENTS

The Group

At 31 December 2011, the Group had the following capital commitments:

	2011 HK$'000	2010 HK$'000
Authorised but not contracted for:		
Acqusition of subsidiaries	–	300,000
Contracted but not provided for:		
Construction of properties	60,619	–
	60,619	300,000

Capital commitment for construction of properties related to capital commitment for construction of film studio, theme park and hotel in Foshan, the PRC.

The Company

At 31 December 2011, the Company had no significant capital commitment (2010: Nil).

38. SHARE-BASED EMPLOYEE COMPENSATION

As at 31 December 2011, the Group had share options schemes for employee compensation as set out below.

38.1 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 196,507 (2010: 196,507) equivalent to approximately 0.02% (2010: 0.03%) 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.

38. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

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

As at 31 December 2011, the share options to subscribe for an aggregate of 196,507 (2010: 196,507) shares of the Company at a subscription price of HK$3.06 (2010: HK$3.06) 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.

38.2 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.

38. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

38.2 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.

38. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

38.2 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 initial public offering share option scheme ("Post-IPO Option Scheme") was terminated on 29 September 2010.

38.3 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;

38. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

38.3 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 5 May 2011 (2010: 29 September 2010), amounting to 800,854,139 (2010: 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.

On 28 March 2011, the board of directors proposed to grant 68,500,000 share options to the Company's directors and employees at exercise price of HK$1.28 per share. The grant of share options was approved by the independent non-executive directors on 28 March 2011.

38. 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.

	Number of share options				
	Outstanding at January 2011	Granted during the year	Lapsed during the year Note (c)	Exercise during the year	Outstanding at 31 December 2011
Option type					
Pre-IPO Option Scheme	196,507	–	–	–	196,507
Post-IPO Option Scheme	79,033,841	–	(983,841)	(400,000)	77,650,000
New Scheme	–	68,500,000	(8,000,000)	–	60,500,000
	79,230,348	68,500,000	(8,983,841)	(400,000)	138,346,507
Exercisable at the end of the year					138,346,507
Weighted average exercise price	HK$0.525	HK$1.28	HK$1.49	HK$0.61	HK$0.835

	Number of share options				
	Outstanding at January 2010	Granted during the year	Lapsed during the year Note (c)	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$0.0484	HK$0.048	N/A	HK$0.525

Notes:

(a) The exercise price of options outstanding at the end of the year ranged between HK$0.48 and HK$3.06 (2010: HK$0.48 and HK$3.53) and their weighted average remaining contractual life was 8.9 years (2010: 9.6 years).

(b) The weighted average share price at the date of exercise of options exercised during the year was HK$1.20. No options were exercised during the years ended 31 December 2010.

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

38. 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 2011 and 2011 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 (Notes)	Risk-free interest rate	Expected volatility	Dividend yield	Life of options
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
28 March 2011	HK$0.2733	HK$1.28	0.28%	59%	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$12,606,000 (2010: HK$8,496,000) 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.

39. RELATED PARTY TRANSACTIONS

39.1 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	2011 HK$'000	2010 HK$'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 ended 31 December 2010, 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 in 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 ended 31 December 2010, interest expense of HK$360,000 was paid to First Credit Limited in which Mr. Sin is also a director of this company.

39.2 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.

40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Disposals of subsidiaries

	Network Engineering Limited (note 10) HK$'000	Other subsidiaries HK$'000	Total HK$'000
Net liabilities disposed of:			
Prepayments, deposits and other receivables	–	71	71
Other payables and accruals	(3,556)	(2,287)	(5,843)
	(3,556)	(2,216)	(5,772)
Gain on disposals of subsidiaries	3,556	2,216	5,772
Consideration satisfied by cash	–	–	–
Net cash flow in respect of the disposals of subsidiaries	–	–	–

Investment properties acquired under finance lease

During the year ended 31 December 2011, investment properties amounted to approximately HK$16,843,000 were acquired under finance lease.

41. ACQUISITION OF ASSETS AND LIABILITIES THROUGH ACQUISITION OF SUBSIDIARIES

On 28 February 2011, the Group acquired 51% equity interests of each of HRL and EPL from the Vendor, at a total consideration of HK$300,000,000 (the "Acquisition").

HRL and EPL are incorporated in Hong Kong and have no business activities since incorporation. In 2010, HRL and EPL entered into two land lease agreements with Foshan City Nanhai District Xiqiaoshan Forest Park Goods and Materials Company (佛山市南海區西樵山森林公園物資公司) (the "Lessor") respectively, for carrying on tourism and entertainment related business, commencing from 3 October 2010 for 20 years and renewable for another 20 years automatically.

41. ACQUISITION OF ASSETS AND LIABILITIES THROUGH ACQUISITION OF SUBSIDIARIES *(Continued)*

The Group, through the Acquisition, obtained the interests in using the land under the lease agreements, in which the directors of the Company are of the opinion that the terms are favourable. The consideration of the Acquisition therefore represented the premium (or rental saving) arising from the favourable lease agreements and recognised as land lease prepayments (note 17) in the consolidated financial statements.

The Acquisition was accounted for as acquisition of assets and liabilities. The fair value of the land lease prepayments would be accounted for as at the date of Acquisition.

The assets and liabilities acquired and the fair value of the total cost of the Acquisition are as followings:

	Fair value at acquisition date HK$'000	**Acquiree's carrying amount** HK$'000
The assets and liabilities arising from the Acquisition are as follows:		
Property, plant and equipment	2,642	2,642
Land lease prepayments (note17 and the note below)	347,436	–
Other receivables and deposits	1,208	1,208
Bank and cash balances	1,403	1,403
Other payables, accrued expenses and receipts in advance	(7,177)	(7,177)
Net assets/(liabilities)	345,512	(1,924)
Non-controlling interest (49%)	(169,301)	
Net assets acquired	176,211	
Bank and cash balances in subsidiaries acquired		1,403
Purchase consideration settled in cash		(30,000)
Cash inflow on acquisition		28,597

41. ACQUISITION OF ASSETS AND LIABILITIES THROUGH ACQUISITION OF SUBSIDIARIES *(Continued)*

	HK$'000
Cash	30,000
Issue of CB1 (note 32)	94,478
Issue of CB2 (note 32)	45,843
Issue of consideration shares	5,890
Fair value of the total cost of acquisition	176,211

Note:

The amount of HK$347,436,000 represented the fair value of the favourable lease terms of two operating leases in which the acquiree was a lessee. The land lease prepayments was determined with reference to the valuation performed by RHL Appraisal Limited, an independent firm of qualified professional valuers.

42. 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.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

42.1 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 3.13 and 3.20 for explanations on how the category of financial instruments affects their subsequent measurement.

Financial assets – The Group

	2011 HK$'000	2010 HK$'000
Financial asset at fair value through profit or loss		
– Investment held for trading	11,611	2,136
Loans and receivables		
– Trade receivables	6,982	2,656
– Deposits and other receivables	20,048	2,518
– Cash and cash equivalents	21,327	160,827
	48,357	166,001

Financial assets – The Company

	2011 HK$'000	2010 HK$'000
Financial asset at fair value through profit or loss		
– Investment held for trading	11,611	2,136
Loans and receivables		
– Deposits and other receivables	354	19
– Amount due from subsidiaries	333,400	56,728
– Cash and cash equivalents	4,831	150,929
	338,585	207,676

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

42.1 Categories of financial assets and liabilities *(Continued)*

Financial liabilities – The Group

	2011 HK$'000	2010 HK$'000
Financial liabilities measured at amortised cost		
– Trade payables	**335**	2,067
– Other payables and accruals	**28,629**	7,282
– Amounts due to a director	**4,182**	–
– Bank borrowings	**3,191**	3,735
– Convertible bonds	**85,287**	–
– Finance lease obliagation	**17,280**	–
	138,904	13,084

Financial liabilities – The Company

	2011 HK$'000	2010 HK$'000
Financial liabilities measured at amortised cost		
– Other payables and accruals	**916**	1,028
– Amounts due to subsidiaries	**333**	1,088
– Convertible bonds	**85,287**	–
	86,536	2,116

42.2 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.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

42.3 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.

42.4 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. 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 89% (2010: 95%) 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.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

42.5 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

	Within 1 year or on demand HK$'000	More than 1 year but less than 5 years HK$'000	More than 5 years HK$'000	Total undiscounted amount HK$'000	Total carrying amount HK$'000
At 31 December 2011					
Trade and other payables	**28,964**	**–**	**–**	**28,964**	**28,964**
Bank borrowings – Term loans subject to a repayable on demand clause	**3,337**	**–**	**–**	**3,337**	**3,191**
Amount due to a director	**4,182**	**–**	**–**	**4,182**	**4,182**
Convertible bonds	**–**	**71,500**	**50,000**	**121,500**	**85,287**
Finance lease obligation	**3,756**	**7,673**	**62,855**	**74,284**	**17,280**
	40,239	**79,173**	**112,855**	**232,267**	**138,904**
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

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

42.5 Liquidity risk *(Continued)*

The Company

	Within 1 year or on demand HK$'000	More than 1 year but less than 5 years HK$'000	More than 5 years HK$'000	Total undiscounted amount HK$'000	Total carrying amount HK$'000
At 31 December 2011					
Other payables and accruals	**916**	**–**	**–**	**916**	**916**
Amount due to director	**333**	**–**	**–**	**333**	**333**
Convertible bonds	**–**	**71,500**	**50,000**	**121,500**	**85,287**
	1,249	**71,500**	**50,000**	**122,749**	**86,536**
Financial guaranteed issued:					
Corporate guarantee	**3,191**	**–**	**–**	**–**	**3,191**
At 31 December 2010					
Other payables and accruals	1,028	–	–	1,028	1,028
Amount due to a director	1,088	–	–	1,088	1,088
	2,116	–	–	2,116	2,116
Financial guaranteed issued:					
Corporate guarantee	3,735	–	–	–	3,735

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 2011	**–**	**598**	**598**	**1,794**	**347**	**3,337**
At 31 December 2010	–	594	594	1,783	941	3,912

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

42.6 Fair values measurements recognised in the consolidated statement of financial position

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:

	2011			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Assets				
Financial assets at fair value through profit or loss				
– Listed equity investments in Hong Kong	11,611	–	–	11,611

43. 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$8,012,000 (2010: HK$6,658,000).

The gearing ratio at the reporting date is as follows:

	2011 HK$'000	2010 HK$'000
Total debts		
– Bank Borrowings	3,191	3,735
– Convertible bonds	85,287	–
– Finance lease obligation	17,280	–
	105,758	3,735
Total assets	671,309	231,586
Gearing ratio	16%	2%

At 31 December 2011, the Group's gearing ratio increased to 16% following the convertible bonds issued and finance lease obligations arisen during the year.

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

44. CONTINGENT LIABILITIES

At 31 December 2011, the Company had corporate guarantee of approximately HK$3,191,000 (2010: HK$3,735,000) 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.

According to the land lease agreements signed between the Group and the local authority in Foshan, the PRC, in relation to the leasing of lands for development of tourism and related entertainment business and hotel operations, the Group shall invest no less than RMB300 million for the projects or the Group is liable to pay RMB4 million as damages to the local authority. The completion of constructions and commencement of operations of the projects shall be within three and four years respectively from the signing of the lease agreements. The directors of the Company are of the opinion that the conditions set in the leasing agreements could be achieved and no provision for liability is necessary.

45. SUBSEQUENT EVENTS

45.1 Construction agreement and operation management agreement of Wong Tai Sin Temple

On 29 February 2012, HRL has entered into two agreements, namely: (a) a construction management agreement ("Construction Agreement") with Foshan City Nanhai District Xiqiaoshan Forest Park Materials Company（佛山市南海區西樵山森林公園物資公司）(the "Local Government Company"), an independent third party, which is wholly-owned by the People's Government of Xiqiao Town, Nanhai District, Foshan, in connection with the construction of Wong Tai Sin Temple (the "Temple") located in the Xiqiao Mountain Dream Park（西樵山夢工場主題公園）(the "Dream Park"), Foshan, Guangdong; and (b) an operation management agreement ("Operation Management Agreement") with Foshan City Nanhai District Xiqiao Wong Tai Sin Temple（佛山市南海區西樵黃大仙祠）(the "Religious Organisation"), an independent third party, which is an approved organisation to carry out religious activities in the PRC, in relation to provision of certain management services.

Regarding to the Construction Agreement, the Local Government Company appoints HRL to construct the Temple in the Dream Park. Upon completion of the construction, HRL shall hand over the Temple to the Local Government Company after final inspection and the Local Government Company shall assign the Temple to the Religious Organisation to operate. The consideration for construction of the Temple payable by the Local Government Company to HRL shall be RMB74,700,000 (equivalent to approximately HK$92,000,000) and the Local Government undertakes that HRL shall be entitled 70% of gross income of the Temple for the whole period of 40 years commencing from the hand-over of the Temple and will be paid on a monthly basis as settlements of the consideration and the related interests.

45. SUBSEQUENT EVENTS *(Continued)*

45.1 Construction agreement and operation management agreement of Wong Tai Sin Temple *(Continued)*

In relation to the Operation Management Agreement, the Religious Organisation shall appoint HRL to provide promotion and non-religion related management and administrative services for the Temple for 40 years commencing from the signing of the Operation Management Agreement on 29 February 2012 and the management fee will be paid by the Religious Organisation to HRL at the amount equal to 10% of the gross income of the Temple on a monthly basis.

The management expects the hand-over of the Temple would be on 29 February 2012, and the consideration of construction and the management fee income would be received commencing from 29 February 2012.

As at 31 December 2011, included in other receivables was an amount of approximately HK$5.2 million, which represented the promotional expenses for the Temple paid by the Group on behalf of the Local Government Company. The amount would be settled as part of the consideration of the abovementioned transaction.

45.2 Sale of property

On 18 January 2012, the Group entered into a sale and purchase agreement with an independent third party to sell a property located in Hong Kong at a consideration of HK$9,800,000. This transaction has been completed on 16 March 2012.

45.3 Loan agreement

On 13 January 2012, the Group entered into a loan agreement with First Credit Limited, which is controlled by Mr. Sin Kwok Lam, an non-executive director of the Company, for a loan of HK$9,900,000. The loan is unsecured, bearing an interest rate of 12 % per annum and will be due for repayments on 11 January 2013.

46. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2011 were approved for issue by the board of directors on 26 March 2012.

Financial summary

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

	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
			(Re-presented)	(Re-presented)	(Re-presented)
Revenue/Turnover					
– Continuing operations	**16,116**	10,505	24	–	–
– Discontinued operations	**–**	375	5,471	15,496	26,023
Revenue/Turnover	**16,116**	10,880	5,495	15,496	26,023
Profit/(loss) before income tax	**61,411**	(36,407)	20,314	(33,610)	(25,033)
Income tax expense	**(32,344)**	–	–	–	–
Profit/(Loss) for the year	**29,067**	(36,407)	20,314	(33,610)	(25,033)
Attributable to:					
Owners of the Company	**(11,410)**	(36,407)	20,314	(33,610)	(25,033)
Minority interests	**40,477**	–	–	–	–
	29,067	(36,407)	20,314	(33,610)	(25,033)

ASSETS, LIABILITIIES AND EQUITY

	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**671,309**	231,586	41,379	17,833	40,825
Total liabilities	**(171,248)**	(13,092)	(30,930)	(78,096)	(67,590)
	500,061	218,494	10,449	(60,263)	(26,765)
Equity attributable to the owners of the Company	**289,356**	218,494	10,449	(60,263)	(26,765)
Minority interests	**210,705**	–	–	–	–
	500,061	218,494	10,449	(60,263)	(26,765)