National Arts

National Arts Holdings Limited

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

(Stock Code : 8228)

Annual Report 2012

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. Prospective investors should be aware 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.

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 GEM of the Exchange for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this report is accurate and complete in all material respects and not misleading or deceptive; and (2) there are no other matters the omission of which would make any statement herein or this report misleading.

Contents

Corporate Information

BOARD OF DIRECTORS

Chairman and Non-executive Director
Mr. Sin Kwok Lam

Vice Chairperson, Executive Director and Chief Executive Officer
Miss Law Po Yee

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

Executive Directors
Mr. Chow Kai Weng
Miss Sin Ho Yee

Non-executive Director
Mr. Li Sin Hung Maxim

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

COMPANY SECRETARY

Mr. Chan Man Hung

COMPLIANCE OFFICER

Miss Law Po Yee

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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
Prof. Wong Lung Tak Patrick

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

Nomination Committee
Mr. Sin Kwok Lam *(Chairman)*
Mr. Chan Tin Lup Trevor
Prof. Wong Lung Tak Patrick

LEGAL ADVISORS

Conyers Dill & Pearman

AUDITOR

BDO Limited, Certified Public Accountants

PRINCIPAL BANKERS

Hang Seng Bank

REGISTERED OFFICE

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 ("National Arts" or the "Group"), I am pleased to present the results performance report of the Group for the year ended 31 December 2012.

The past year was a year of construction for the Group. The Group recorded a slight decrease in turnover, mainly due to the fact that it launched no film last year, however, its cultural development projects have made substantial progress. Hong Kong Scene Area at the Xiqiao Mountain Dream Work had been completed and put into operation in August 2012, and have been leased to a number of crews from Mainland China and Hong Kong. Other scenic spots including Shanghai Scene Area, Canton Scene Area, the Imperial Garden, the Beijing Old Street, the Four-section Compound, the Water Towns in Southern Yangtze River and the Qing-Ming Festival Riverside Scene are expected to be completed in this year or next year.

With the completion of the scenic spots, the number of visitors will significantly grow. National Arts Resort Hotel and National Arts Boutique Hotel, adjacent to the Xiqiao Mountain Dream Park, provide a total of almost 800 rooms ranging from deluxe suites to economic standard rooms to cater to visitors' varied needs. National Arts Resort Hotel, which has 353 rooms, will be completed later this year. The construction of National Arts Boutique Hotel will commence in the middle of this year and is expected to be completed in the second quarter of next year.

Furthermore, the Group's blockbuster film in the year "Ip Man – The Final Fight", for which it had made preparations for a long time, was shot in Hong Kong Scene Area of the Xiqiao Mountain Dream Work early this year, which features what life and streets were like in Hong Kong in the 1950s and 1960s. It was chosen as an opening film of this year's Hong Kong International Film Festival, and was also selected to compete at the fifteenth Udine Far East Film Festival.

Although China's economy growth slowed down slightly, the culture industry continued to grow. As stated in the Twelfth Five-Year Plan, cinema business is among projects encouraged by the Chinese government. It is expected that the government will introduce additional favourable industry policies to further boost the development of the film and culture industry. According to the State Administration of Radio, Film and Television, China's box office exceeded RMB17 billion in 2012, representing an increase of 30.18% from the previous year. Compared to RMB920 million in 2002 when the film industry reform commenced, the box office is 18.5 times that of 10 years ago. China has become the second largest film market in the world following the U.S. With the urbanization and growing income per capita in China, I believe the film viewing times per capita in China will continue to increase. Targeting the vast market demand in China, National Arts, together with an enterprise engaged in property, tourism and entertainment business in Macau, earlier started to develop cinema business in a large shopping mall in a transportation hub area of Zhuhai. The cinema is planned to boast eight screens and more than 730 seats, and is expected to commence operation during the summer holiday this year.

Going forward, the Group will continue to identify and explore other opportunities relating to entertainment and films from studio operation to film shooting and production to artiste management and to cinema operation, an aims to expand into upstream, midstream and downstream business. The past several years were a period of construction for National Arts. The completion of the scenic spots of the Xiqiao Mountain Dream Work will lay a solid foundation for the Group's stable and sustainable development and will hopefully create continuous growth and maximize returns for the shareholders.

Management Discussion and Analysis

BUSINESS REVIEW

Xiqiao Mountain Dream Work Project

Located in Foshan city, Guangdong province, the Group's Xiqiao Mountain Dream Work project has a total of developed land area of 444,000 square metres. Drawing on the experience of the U.S. Universal Studios, it is a unique studio which embodies world-wide success elements such as leisure resort hotels and film shooting base and incorporates tourism and recreational facilities such as film shooting area and hotels.

- ***Film Shooting Base***

  The film shooting base is the core project of the Xiqiao Mountain Dream Work Project and it will equip with the most excellent and comprehensive ancillary facilities featuring most realistic and delicate details in South China. Its Hong Kong Scene Area covering an area of 33,350 square metres and reproducing Hong Kong's scene in the 1950s and 1960s, was completed and put into operation in August 2012. "Ip Man – The Final Fight", a blockbuster film in the year invested by the Group, was the first film to be shot in Hong Kong Street Scene Area.

  The studio has remained closed to the public. However, the Group made certain areas in the studio open to public for holding holiday parties during the Halloween, the Christmas and The New Year. It received warm response as evident by around 10,000 visitors in only ten days during these three holidays. The Group is considering holding themed parties in the studio on a regular basis in order to promote the Xiqiao Mountain Dream Work.

  All other shooting scenic spots will be completed in this year or next year, including Shanghai Scene Area and Canton Scene Area which are expected to be completed in June 2013, the Ming-Qing Dynasty Palace is expected to be completed in August 2013, the Imperial Garden, the Beijing Old Street, the Four-section Compound, the Water Towns in Southern Yangtze River the Qing-Ming Festival Riverside Scene and the Foreign Scene Area which are expected to be completed at the end of 2013. The film shooting base can provide diversified and practical scenes for crews from Mainland China and Hong Kong, and is expected to attract a lot of film production companies in Mainland China and Hong Kong due to its supreme geographical location and good climate. We have received confirmations from more than three film production companies for the lease of Hong Kong Scene Area. The Group expects the revenue from the studio to increase and make considerable contribution to the Group.

- ***Hotels***

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

- ***"Wong Tai Sin Temple" and "Ti Tsang Temple"***

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

Film Production

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

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

Cinema

National Arts Films Production Limited ("NA Films"), an indirectly wholly-owned subsidiary of the Company, collaborated with its Macau partner for the development of cinema business in a large shopping mall in a transportation hub area of Zhuhai. NA Films holds 60% equity interest in the joint venture, which has entered into a lease agreement with the landlord for a term of 15 years. The cinema will boast eight screens and a total of more than 730 seats, and is expected to commence operation in the middle of the year which will support more comprehensive development of the Group's entertainment and culture business.

Artiste Management

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

FUTURE PROSPECT

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

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

FINANCIAL REVIEW

Results

During the year under review, the Group reported a turnover of approximately HK$6.8 million, an decrease of 58% 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. Decrease in turnover mainly due to major part of film production and licensing income from "The Woman Knight of Mirror Lake – Qiu Jin" was recorded in last year.

Cost of film production for the year under review decreased approximately by HK$38.8 million as last year's cost mainly represented the film products amortised for the movie "The Woman Knight of Mirror Lake – Qiu Jin".

Construction management fee income for the year under review, approximately HK$29.2 million, was from a local government company in Foshan City, the PRC. This was an one-off income incurred during the year.

Staff costs for the year under review decreased to approximately HK$16.9 million from approximately HK$20.5 million in previous year. A decrease of approximately HK$3.6 million in staff cost was mainly due to less share options granted to directors and employees during the year under review.

Finance costs for the year under review increased by approximately HK$1.3 million mainly due to interest charged on additional borrowings raised during the year for general working capital use of the Group, set-off with capitalisation of finance costs to construction in progress.

Gain on change in fair value of investment properties for the year under review was approximately HK$8.0 million which is arising from revaluation of the land and construction of film studio.

For the year ended 31 December 2012, the Group recorded a net loss of approximately HK$2.0 million as compared to net profit of the preceding year of approximately HK$29.1 million. During the year, the Group incurred several non-cash flow expense items, including but not limited to, share option expenses amounting to HK$5.3 million, impairment of goodwill amounting to HK$9.0 million and unwinding of discount of convertible bonds amounting to HK$8.7 million. After adding back these non-cash flow expense items, the Group recorded a net profit of approximately HK$21.0 million during the year.

Liquidity and Financial Resources

	2012 HK$'000	2011 HK$'000
Current assets	**198,546**	69,355
Current liabilities	**163,943**	38,212
Current ratio	**121.1%**	181.5%

Current ratio as at 31 December 2012 was 121.1% (2011: 181.5%). As at 31 December 2012, the Group's total cash and cash equivalents amounted to approximately HK$157.5 million (2011: HK$21.3 million).

Dividend

The directors do not recommend payment of a final dividend for the year ended 31 December 2012 (2011: Nil).

Capital Structure and Gearing Ratio

The shares of the Company were listed on GEM of the Exchange on 17 October 2002. The capital of the Company comprises only ordinary shares. As at 31 December 2012, 4,056,270,695 ordinary shares were issued and fully paid.

	2012		2011	
	Amount HK$'000	**Relative %**	Amount HK$'000	Relative %
Loans from a related company	**13,400**	**1.6%**	–	–
Borrowings	**25,000**	**2.9%**	3,191	0.5%
Convertible bonds	**–**	**–**	85,287	14.1%
Finance lease obligation	**17,613**	**2.1%**	17,280	2.9%
Total borrowings	**56,013**	**6.6%**	105,758	17.5%
Equity	**793,815**	**93.4%**	500,061	82.5%
Total capital employed	**849,828**	**100.0%**	605,819	100.0%

The Group's gearing ratio was approximately 6.6% as at 31 December 2012 (2011: 17.5%). If the convertible bonds (liability component) and finance lease obligation as stated above were to be excluded, the underlying gearing ratio was 4.5% (2011: 0.5%). The decrease in the gearing ratio in current year was due to early redemption on convertible bonds to Mr. Sin Kwok Lam (Chairman and Non-executive Director).

Foreign Exchange Exposure

The Group's reporting currency is expressed in Hong Kong dollars. During the reporting period for the year ended 31 December 2012, 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 year under review.

Material Acquisitions or Disposal of Subsidiaries and Affiliated Companies

The Group did not acquire or dispose of any significant investment during the year.

Capital Commitment

Other than disclosed in note 39 to the consolidated financial statements, the Group did not have any capital commitment at the end of reporting date.

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

Other than disclosed in note 47 to the consolidated financial statements, the Group did not have any subsequent events.

Contingent liabilities

Other than disclosed in note 46 to the consolidated financial statements, the Group did not have any material contingent liabilities at the end of reporting date.

Employee and Remuneration Policy

As at 31 December 2012, the Group had a total of 99 (2011: 87) 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.

EXECUTIVE DIRECTORS

Miss Law Po Yee, aged 33, was appointed as the Vice Chairperson 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 28, 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 28, 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 55, 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 Association of Chartered 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 54, 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), committee member 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 a 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 Exchange.

Biographical Details of Directors

Mr. Li Sin Hung Maxim, aged 42, worked for Cathay Pacific Airways Limited during the period from 1996-1998. After resigned from Cathay Pacific, Mr. Li continued his education in Boston and started food and beverage business and plastic resin trading business in the United States of America. In 2000, Mr. Li returned to Hong Kong and worked in HSBC, Federal Express Pacific Inc. and Midland Business Management 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 53, 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 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 56, holds a Bachelor's degree in Commerce 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 Chartered Association of Certified Accountants. Mr. Chui is also an independent non-executive director of Tse Sui Luen Jewellery (International) Limited (stock code: 417) and Wing Lee Property Investment Limited (stock code: 864) and, was also an Independent Non-executive Director of 21 Holdings Limited (stock code: 1003) until his resignation in September 2011. Mr. Chui was appointed as an Independent Non-executive Director in May 2009. He is now currently the Commissioner of the Hong Kong Road Safety Patrol. He is a member of the Transport Advisory Committee and Road Safety and Traffic Management Sub-committee and the Chairman of the Transport Complaint Unit Sub-committee, within the Transport and Housing Bureau of the Hong Kong Special Administrative Region. He is also a director of a number of private companies and association.

Prof. Patrick Wong Lung Tak, BBS, JP, aged 65, has been an Independent Non-executive Director of the Company since 3 February 2010. Prof. Wong is a Certified Public Accountant (Practising) in Hong Kong and the Managing Practising Director of Patrick Wong CPA Limited. He has over 30 years experience in the accountancy profession. Prof. Wong holds a Doctor degree of Philosophy in Business, was awarded a Badge of Honour by the Queen of England, and was appointed a Justice of the Peace and was awarded a Bronze Bauhinia Star (BBS) by the Government of the HKSAR. He has been appointed Adjunct Professor, School of Accounting and Finance of the Hong Kong Polytechnic University since 2002. Prof. Wong participates in many types of community services and is holding posts in various organisations and committees in government and voluntary agencies. Prof. 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 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 2012.

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, and operations of film studio and hotels.

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 2012 are set out in the consolidated statement of comprehensive income on pages 32 to 33.

No dividend was paid during the year. The Board does not recommend the payment of a dividend for the year ended 31 December 2012 (2011: 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 36 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 37 to the consolidated financial statements.

Directors' Report

DISTRIBUTABLE RESERVES

As at 31 December 2012, the Company has approximately HK$42 million reserves available for distribution to shareholders (2011: approximately HK$55 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. Chow Kai Weng
Miss Sin Ho Yee

Non-executive Directors:
Mr. Li Sin Hung Maxim

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

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

DIRECTORS' SERVICE CONTRACTS

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

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

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

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

As at 31 December 2012, 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 "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 Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Exchange, were as follows:

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

	Name of Directors	Capacity/Nature of interest	Number of shares	Interest in controlled corporation	Total	Approximate percentage of the issued share capital of the Company
(a)	The Company (Ordinary shares of HK$0.01 each)					
	Mr. Sin Kwok Lam (Note 1)	Beneficial owner	976,390,000	–	976,390,000	24.07%
		Interest of spouse	33,360,000	–	33,360,000	0.82%
	Miss Law Po Yee (Note 1)	Beneficial owner	33,360,000	–	33,360,000	0.82%
		Interest of spouse	976,390,000	–	976,390,000	24.07%
(b)	Head Return Limited (Ordinary shares of HK$1.00 each)					
	Mr. Sin Kwok Lam	Beneficial owner	49	–	49	49%
	Miss Law Po Yee (Note 2)	Interest of spouse	49	–	49	49%
(c)	Expand Pacific Limited (Ordinary shares of HK$1.00 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 1,009,750,000 Shares, representing approximately 24.89% of the issued share capital of the Company. By virtue of SFO, Miss Law, the spouse of Mr. Sin, was deemed to be interested in all the Shares in which Mr. Sin was interested.

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

2. Rights to acquire shares in the Company

i. Post-IPO Share Option Scheme

				Number of share options*				
Details of grantees	Date of grant	Exercise price per share* (HK$)	Exercisable period	As at 1 January 2012	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2012
Mr. Sin Kwok Lam (Director)	29 September 2010	0.30	29 September 2010 to 2 September 2020	76,800,000	–	–	–	76,800,000
Miss Law Po Yee (Director)	29 September 2010	0.30	29 September 2010 to 2 September 2020	38,400,000	–	–	–	38,400,000
Mr. Lam Kwok Hing Wilfred (Director)	13 May 2010	0.38	13 May 2010 to 12 May 2020	2,407,894	–	–	–	2,407,894
	29 September 2010	0.30	29 September 2010 to 2 September 2020	5,200,000	–	–	–	5,200,000
Mr. Chow Kai Weng (Director)	29 September 2010	0.30	29 September 2010 to 2 September 2020	240,000	–	–	–	240,000
Mr. Li Sin Hung Maxim (Director)	20 May 2010	0.35	20 May 2010 to 19 May 2020	241,714	–	–	–	241,714
Mr. Chui Chi Yun, Robert (Director)	13 May 2010	0.38	13 May 2010 to 12 May 2020	321,053	–	–	–	321,053
Mr. Chan Tin Lup, Trevor (Director)	20 May 2010	0.35	20 May 2010 to 19 May 2020	322,286	–	–	–	322,286
Prof. Wong Lung Tak, Patrick (Director)	20 May 2010	0.35	20 May 2010 to 19 May 2020	322,286	–	–	–	322,286

* Pursuant to the announcement regarding to the result of the Rights Issue dated 21 December 2012, the exercise price of the share options and the number of outstanding share options as at the completion of Rights Issue were required to be adjusted as a result of the Rights Issue.

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 2012	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2012
Mr. Sin Kwok Lam (Director)	28 March 2011	0.79	28 March 2012 to 27 March 2021	32,405,063	–	–	–	32,405,063
	31 March 2012	0.58	31 March 2012 to 30 March 2017	–	1,296,552	–	–	1,296,552
Miss Law Po Yee (Director)	28 March 2011	0.79	28 March 2012 to 27 March 2021	32,405,063	–	–	–	32,405,063
	31 March 2012	0.58	31 March 2012 to 30 March 2017	–	1,296,552	–	–	1,296,552
Mr. Lam Kwok Hing Wilfred (Director)	28 March 2011	0.79	28 March 2012 to 27 March 2021	18,146,835	–	–	–	18,146,835
	31 March 2012	0.58	31 March 2012 to 30 March 2017	–	648,276	–	–	648,276
Mr. Chow Kai Weng (Director)	28 March 2011	0.79	28 March 2012 to 27 March 2021	567,089	–	–	–	567,089
	31 March 2012	0.58	31 March 2012 to 30 March 2017	–	648,276	–	–	648,276
Miss Sin Ho Yee (Director)	28 March 2011	0.79	28 March 2012 to 27 March 2021	12,962,025	–	–	–	12,962,025
	31 March 2012	0.58	31 March 2012 to 30 March 2017	–	486,207	–	–	486,207
Mr. Li Sin Hung Maxim (Director)	28 March 2011	0.79	28 March 2012 to 27 March 2021	81,013	–	–	–	81,013
	31 March 2012	0.58	31 March 2012 to 30 March 2017	–	162,069	–	–	162,069
Mr. Chui Chi Yun, Robert (Director)	28 March 2011	0.79	28 March 2012 to 27 March 2021	324,051	–	–	–	324,051
	31 March 2012	0.58	31 March 2012 to 30 March 2017	–	648,276	–	–	648,276
Prof. Wong Lung Tak, Patrick (Director)	28 March 2011	0.79	28 March 2012 to 27 March 2021	324,051	–	–	–	324,051
	31 March 2012	0.58	31 March 2012 to 30 March 2017	–	648,276	–	–	648,276
Mr. Chan Tin Lup, Trevor (Director)	28 March 2011	0.79	28 March 2012 to 27 March 2021	324,051	–	–	–	324,051
	31 March 2012	0.58	31 March 2012 to 30 March 2017	–	648,276	–	–	648,276

* Pursuant to the announcement regarding to the result of the Rights Issue dated 21 December 2012, the exercise price of the share options and the number of outstanding share options as at the completion of Rights Issue were required to be adjusted as a result of the Rights Issue.

Save as disclosed above, none of the Directors, Chief Executive or their associates had, as at 31 December 2012, 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 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 Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the 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 2012, 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	805,068,000	19.85%

SHARE OPTION SCHEMES

Pursuant to a written resolution of the sole shareholder of the Company dated 22 July 2002, the Company conditionally adopted and approved the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, the principal terms of which are set out in the sections headed "Pre-IPO Share Option Scheme" and "Post-IPO Share Option Scheme" in Appendix IV to the prospectus of the Company dated 9 October 2002 (the "Prospectus").

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

Pre-IPO Share Option Scheme

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. As at 31 December 2012, no share options to subscribe for the Company granted pursuant to the Pre-IPO Share Option Scheme were outstanding.

The details of the Pre-IPO Share Option Scheme as at 31 December 2012 are set out as follows:

		Number of share options			
Category of participants	**Exercise price per share** (HK$)	**As at 1 January 2012**	**Exercised during the year**	**Lapsed during the year**	**Outstanding as at 31 December 2012**
Advisors and consultants	3.06	196,507	–	(196,507)	–

Post-IPO Share Option Scheme

As at 31 December 2012, the share options to subscribe for an aggregate of 124,255,233 shares of the Company granted pursuant to the Post-IPO Share Option Scheme were outstanding. The details of the Post-IPO Share Option Scheme as at 31 December 2012 are set out as follows:

			Number of share options*				
Category of Participants	**Exercise price per share*** (HK$)	**Date of grant**	**As at 1 January 2012**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**Outstanding as at 31 December 2012**
Directors	0.38	13 May 2010	2,728,947	–	–	–	2,728,947
Directors	0.35	20 May 2010	886,286	–	–	–	886,286
Directors	0.30	29 September 2010	120,640,000	–	–	–	120,640,000
Total			124,255,233	–	–	–	124,255,233

* Pursuant to the announcement regarding to the result of the Rights Issue dated 21 December 2012, the exercise price of the share options and the number of outstanding share options as at the completion of Rights Issue were required to be adjusted as a result of the Rights Issue.

New Share Option Scheme

As at 31 December 2012, the share options to subscribe for an aggregate of 104,021,999 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 2012 are set out as follows:

Category of Participants	Exercise price per share* (HK$)	Date of grant	Number of share options*: As at 1 January 2012	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2012
Directors	0.79	28 March 2011	97,539,240	–	–	–	97,539,240
Directors	0.58	31 March 2012	–	6,482,759	–	–	6,482,759
Employees	0.79	28 March 2011	486,076	–	–	(486,076)	–
Total			98,025,316	6,482,759	–	(486,076)	104,021,999

* Pursuant to the announcement regarding to the result of the Rights Issue dated 21 December 2012, the exercise price of the share options and the number of outstanding share options as at the completion of Rights Issue were required to be adjusted as a result of the Rights Issue.

DIRECTORS' INTERESTS IN CONTRACTS

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$494,000 (2011: HK$187,000).

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

Other than convertible bonds amounting to HK$121,500,000 which were early redeemed on 20 December 2012, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2012.

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 43% of the Group's turnover for the year. The Group's largest customer accounted for approximately 16% of its turnover.

The five largest suppliers of the Group accounted for approximately 21% of the Group's purchases for the year. The Group's largest supplier accounted for approximately 8% 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 all 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 2012. Please refer to the Corporate Governance Report on pages 22 to 29 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 2012.

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 Prof. Wong Lung Tak Patrick.

During the year, the Audit Committee has met four times to review the Company's annual reports and financial statements, interim 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 2012.

Please refer to the Corporate Governance Report on pages 22 to 29 for details.

AUDITOR

The consolidated financial statements of the Group for the year ended 31 December 2012 have been audited by BDO Limited.

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

On behalf of the Board

Law Po Yee
Chief Executive Officer

Hong Kong, 25 March 2013

Corporate Governance Report

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 2012.

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 2012.

BOARD OF DIRECTORS

The Company has a balanced Board composition of Executive and Non-executive Directors. During the year ended 31 December 2012, 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
Prof. 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 Miss Law Po Yee is Mr. Sin Kwok Lam'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 2012, a total of four Board meetings and a total of two General meetings were held and the attendance record of each individual Board member at these Board meetings and General Meetings is set out in the following table:

Directors	**Attendance of Board meetings**	**Attendance of General meetings**
Mr. Sin Kwok Lam	4/4	2/2
Miss Law Po Yee	4/4	2/2
Mr. Lam Kwok Hing Wilfred	4/4	2/2
Mr. Chow Kai Weng	4/4	2/2
Miss Sin Ho Yee	3/4	1/2
Mr. Li Sin Hung Maxim	4/4	2/2
Mr. Chui Chi Yun Robert	4/4	2/2
Mr. Chan Tin Lup Trevor	4/4	2/2
Prof. Wong Lung Tak Patrick	4/4	2/2

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, Miss Law Po Yee, 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.

Continuous Professional Development

Directors' training is an ongoing process. During the year, Directors received regular updates and presentations on changes and developments to the Group's business and to environments in which the Group operates. All Directors are also encouraged to attend relevant training courses at the Company's expense. Effective from January 2012, all Directors are required to provide the Company with his or her annual training record.

The Directors participated in the continuous professional developments in relation to regulatory update, the duties and responsibilities of the Directors and the business of the Group in the following manner:

	Directors	Types of training
Executive Directors	Miss Law Po Yee	A, B
	Mr. Chow Kai Weng	A, B
	Miss Sin Ho Yee	A, B
Non-executive Directors	Mr. Sin Kwok Lam	A, B
	Mr. Lam Kwok Hing Wilfred	A, B
	Mr. Li Sin Hung Maxim	A, B
Independent non-executive Directors	Mr. Chan Tin Lup Trevor	A, B
	Mr. Chui Chi Yun Robert	A, B
	Prof. Wong Long Tak Patrick	A, B

A: attending internal briefing session in relation to corporate governance
B: reading materials in relation to regulatory update

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.

Directors' insurance

The Company has arranged appropriate insurance cover in respect of legal action against the Directors.

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 Prof. Wong Lung Tak Patrick. 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 one meeting during the year ended 31 December 2012 and the attendance record of this meeting is set out in the following table:

	Directors' Attendance
Mr. Chui Chi Yun Robert *(Chairman)*	1/1
Mr. Chan Tin Lup Trevor	1/1
Prof. Wong Lung Tak Patrick	1/1

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 Prof. 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 2012 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
Prof. Wong Lung Tak Patrick	4/4

NOMINATION COMMITTEE

The Nomination Committee was established in 2012. The Nomination Committee currently comprises three members, Mr. Sin Kwok Lam (Chairman), Mr. Chan Tin Lup Trevor and Prof. Wong Lung Tak Patrick. Mr. Sin Kwok Lam is Non-executive Director and the rest of them are Independent Non-executive Directors.

The major responsibilities of the Nomination Committee include: (i) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; (ii) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for directorship; (iii) to assess the independence of the Independent Non-executive Directors of the Company; and (iv) to make recommendations to the Board on the appointment or re-appointment or re-designation of directors and succession planning for Directors, in particular the Chairman and the Chief Executive Officer.

The Nomination Committee held one meeting during the year ended 31 December 2012 and the attendance record of this meeting is set out in the following table:

	Directors' Attendance
Mr. Sin Kwok Lam *(Chairman)*	1/1
Mr. Chan Tin Lup Trevor	1/1
Prof. Wong Lung Tak Patrick	1/1

CORPORATE GOVERNANCE FUNCTIONS

The corporate governance functions performed by the Board of Directors include: (i) Formulate and review the corporate governance policy and practice of the Company; (ii) Review and monitor the training and continuous professional development of Directors and the senior management; (iii) Review and monitor the policy and practice of the Company in compliance with laws and regulatory requirements; and (iv) Review the compliance with the Code of Corporate Governance by the Company and the disclosure in the Corporate Governance Report.

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 2012, 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 30 to 31 of this annual report.

AUDITOR'S REMUNERATION

During the year ended 31 December 2012, the Group had engaged BDO Limited to provide the following services and their respective fees charged are set out below:

	Fee paid/payable HK$'000
Audit services rendered	575
Non-audit services rendered	100

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.

CONSTITUTIONAL DOCUMENTS

There is no any changes in the Company's constitutional documents during the year ended 31 December 2012.

SHAREHOLDERS' RIGHTS

Convening a special general meeting ("SGM") and putting forward proposals at general meetings Pursuant to the Bye-laws of the Company, Shareholder(s) holding at the date of the deposit of the requisition not less than one-tenth (10%) of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall have the right to submit a written requisition requiring a SGM to be called by the Board. The written requisition (i) must state the object(s) of the meeting, and (ii) must be signed by the requisitionists and deposited at the registered office of the Company for attention of the Company Secretary of the Company, and may consist of several documents in like form, each signed by one or more requisitionists. Such requisitions will be verified with the Company's share registrar and upon its confirmation that the requisition is proper and in order, the Company Secretary will ask the Board to convene an SGM by serving sufficient notice to all Shareholders. On the contrary, if the requisition has been verified as not in order, the requisitionists will be advised of this outcome and accordingly, the SGM will not be convened as requested.

If Directors do not within 21 days from the date of the deposit of the requisition proceed duly to convene a SGM for a day not more than two months after the date of deposit of such requisition, the requisitionists or any of them representing more than one-half of the total voting rights of all of them may convene a SGM, but any SGM so convened shall not be held after the expiration of 3 months from the said date of deposit of the requisition. A meeting convened by the requisitionists shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by directors.

Pursuant to the Bermuda Companies Act 1981, either any number of the registered Shareholders holding not less than one-twentieth (5%) of the paid-up capital of the Company carrying the right of voting at general meetings of the Company ("Requisitionists"), or not less than 100 of such registered Shareholders, can request the Company in writing to (a) give to Shareholders entitled to receive notice of the next general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting; and (b) circulate to Shareholders entitled to have notice of any general meeting any statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting. The requisition signed by all the Requisitionists must be deposited at the registered office of the Company with a sum reasonably sufficient to meet the Company's relevant expenses and not less than six weeks before the meeting in case of a requisition requiring notice of a resolution or not less than one week before the meeting in the case of any other requisition. Provided that if an AGM is called for a date six weeks or less after the requisition has been deposited, the requisition though not deposited within the time required shall be deemed to have been properly deposited for the purposes thereof.

Enquiries from Shareholders

Shareholders should direct their enquiries about their shareholdings to the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited. Other Shareholders' enquiries can be directed to the Company whose contact details are shown on page 2 of this Annual Report.

COMPANY SECRETARY

As the Group has engaged an external service provider as its Company Secretary, the external service provider can contact our Executive Director, Mr. Chow Kai Weng for any company secretarial affairs.

INVESTOR RELATIONS

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 32 to 121, which comprise the consolidated and company statements of financial position as at 31 December 2012, 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.

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.

AUDITOR'S RESPONSIBILITY *(Continued)*

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 2012 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

BDO Limited
Certified Public Accountants

Li Wing Yin
Practising Certificate Number P05035

Hong Kong, 25 March 2013

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
CONTINUING OPERATIONS			
Revenue/Turnover	5	**6,789**	16,116
Other operating income	5	**41,048**	4,175
Cost of film production		**(311)**	(39,067)
Staff costs	13	**(16,904)**	(20,495)
Depreciation of property, plant and equipment		**(1,915)**	(1,984)
Amortisation of land lease prepayments		**(2,257)**	(5,719)
Impairment of goodwill		**(8,974)**	–
Other operating expenses		**(12,979)**	(18,555)
Finance costs	7	**(9,550)**	(8,207)
Change in fair value of investment properties	16	**7,950**	129,375
Gain on disposals of subsidiaries	42	**–**	2,216
Profit before income tax	8	**2,897**	57,855
Income tax expense	9	**(4,938)**	(32,344)
(Loss)/Profit for the year from continuing operations		**(2,041)**	25,511
DISCONTINUED OPERATIONS			
Profit for the year from discontinued operations	10	**–**	3,556
(Loss)/Profit for the year		**(2,041)**	29,067
Other comprehensive income			
Exchange differences on translation of financial statements of foreign operations		**1,519**	1,904
Other comprehensive income for the year		**1,519**	1,904
Total comprehensive income for the year		**(522)**	30,971

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
(Loss)/Profit for the year attributable to:			
Owners of the Company	11	**(12,917)**	(11,410)
Non-controlling interests		**10,876**	40,477
		(2,041)	29,067
Total comprehensive income for the year attributable to:			
Owners of the Company		**(12,138)**	(10,433)
Non-controlling interests		**11,616**	41,404
		(522)	30,971
Basic and diluted loss per share for loss attributable to the owners of the Company during the year	12		(Restated)
From continuing and discontinued operations		**(HK0.96 cents)**	(HK0.91 cents)
From continuing operations		**(HK0.96 cents)**	(HK1.19 cents)

Consolidated Statement of Financial Position

As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	**112,920**	59,446
Investment properties	16	**513,426**	440,775
Land lease prepayments	17	**84,752**	92,759
Goodwill	19	**–**	8,974
Other receivables	24	**98,097**	–
		809,195	601,954
Current assets			
Film products	20	**–**	–
Film production in progress	21	**19,398**	4,090
Trade receivables	22	**1,162**	6,982
Inventories	23	**1,126**	1,111
Prepayments, deposits and other receivables	24	**19,343**	24,234
Financial assets at fair value through profit or loss	25	**–**	11,611
Cash and cash equivalents	26	**157,517**	21,327
		198,546	69,355
Current liabilities			
Trade payables	27	**79**	335
Other payables and accruals	28	**119,401**	28,629
Amount due to a director	29	**1,151**	4,182
Loans from a related company	29	**13,400**	–
Borrowings	32	**25,000**	3,191
Finance lease obligation	33	**1,961**	1,875
Provision for income tax		**2,951**	–
		163,943	38,212
Net current assets		**34,603**	31,143
Total assets less current liabilities		**843,798**	633,097

Consolidated Statement of Financial Position

As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current liabilities			
Convertible bonds	34	–	85,287
Finance lease obligation	33	**15,652**	15,405
Deferred tax liabilities	35	**34,331**	32,344
		49,983	133,036
Net assets		**793,815**	500,061
EQUITY			
Equity attributable to the owners of the Company			
Share capital	36	**40,562**	8,012
Reserves	37	**530,932**	281,344
		571,494	289,356
Non-controlling interests		**222,321**	210,705
Total equity		**793,815**	500,061

Director *Director*

Law Po Yee **Sin Kwok Lam**

Statement of Financial Position

As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	**139**	193
Interests in subsidiaries	18	**10**	9,010
		149	9,203
Current assets			
Prepayments, deposits and other receivables	24	**589**	682
Financial assets at fair value through profit or loss	25	**–**	11,611
Amounts due from subsidiaries	30	**446,015**	333,400
Cash and cash equivalents	26	**103,257**	4,831
		549,861	350,524
Current liabilities			
Other payables and accruals	28	**1,861**	916
Amounts due to subsidiaries	31	**2,279**	333
Borrowings	32	**25,000**	–
		29,140	1,249
Net current assets		**520,721**	349,275
Total assets less current liabilities		**520,870**	358,478
Non-current liabilities			
Convertible bonds	34	**–**	85,287
Net assets		**520,870**	273,191
EQUITY			
Share capital	36	**40,562**	8,012
Reserves	37	**480,308**	265,179
Total equity		**520,870**	273,191

Director	*Director*
Law Po Yee	**Sin Kwok Lam**

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Equity attributable to the owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000 (note 37)	Contributed surplus HK$'000 (note 37)	Translation reserve HK$'000	Share option reserve HK$'000	Convertible bond equity reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity 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 36(a))	1,350	4,540	–	–	–	–	–	–	5,890	–	5,890
Shares issued under share option scheme	4	318	–	–	–	(78)	–	–	244	–	244
Issue of convertible bonds (note 34)	–	–	–	–	–	–	62,754	–	62,754	–	62,754
Arising from acquisition of subsidiaries (note 43)	–	–	–	–	–	–	–	–	–	169,301	169,301
Employee share-based compensation	–	–	–	–	–	12,606	–	–	12,606	–	12,606
Shares 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 disposal 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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Equity attributable to the owners of the Company										
	Share capital HK$'000	**Share premium HK$'000**	**Special reserve HK$'000 (note 37)**	**Contributed surplus HK$'000 (note 37)**	**Translation reserve HK$'000**	**Share option reserve HK$'000**	**Convertible bond equity reserve HK$'000**	**(Accumulated losses)/ Retained earnings HK$'000**	**Total HK$'000**	**Non-controlling interests HK$'000**	**Total equity HK$'000**
At 1 January 2012	8,012	126,941*	1,000*	78,791*	998*	21,002*	62,754*	(10,142)*	289,356	210,705	500,061
Shares issued upon exercise of bonus warrants (note 36 (d))	100	3,300	–	–	–	–	–	–	3,400	–	3,400
Shares issued under rights issue (note 36 (c))	32,450	292,052	–	–	–	–	–	–	324,502	–	324,502
Employee share-based compensation	–	–	–	–	–	5,303	–	–	5,303	–	5,303
Redemption of convertible bonds (note 34)	–	–	–	–	–	–	(28,710)	–	(28,710)	–	(28,710)
Shares issue expenses	–	(10,219)	–	–	–	–	–	–	(10,219)	–	(10,219)
Transactions with owners	32,550	285,133	–	–	–	5,303	(28,710)	–	294,276	–	294,276
Loss for the year	–	–	–	–	–	–	–	(12,917)	(12,917)	10,876	(2,041)
Other comprehensive income											
Exchange differences on translation of financial statements of foreign operations	–	–	–	–	779	–	–	–	779	740	1,519
Total comprehensive income for the year	–	–	–	–	779	–	–	(12,917)	(12,138)	11,616	(522)
Transfer of lapsed options to (accumulated losses)/retained earnings	–	–	–	–	–	(76)	–	76	–	–	–
Transfer upon redemption of convertible bonds (note 34)	–	–	–	–	–	–	(34,044)	34,044	–	–	–
At 31 December 2012	40,562	412,074*	1,000*	78,791*	1,777*	26,229*	–*	11,061*	571,494	222,321	793,815

* The aggregate amount of these balances of HK$530,932,000 (2011: HK$281,344,000) in surplus is included as reserves in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Cash flows from operating activities			
Profit before income tax, including profit from discontinued operations		**2,897**	61,411
Adjustments for:			
Finance costs		**9,550**	8,207
Bank interest income		**(13)**	(42)
Interest income on financial assets stated at amortised cost		**(5,407)**	–
Dividend income		**(313)**	(512)
Amortisation of film products		**–**	31,193
Impairment of film products		**–**	7,874
Amortisation of land lease prepayments		**2,257**	5,719
Depreciation of property, plant and equipment		**1,915**	1,984
Impairment of goodwill		**8,974**	–
Change in fair value of financial assets at fair value through profit or loss		**–**	3,934
Change in fair value of investment properties		**(7,950)**	(129,375)
Gain on disposals of financial assets at fair value through profit or loss		**(1,861)**	–
Gain on disposals of property, plant and equipment		**(3,928)**	–
Gain on disposals of subsidiaries	42	**–**	5,772
Gain on early redemption of convertible bonds		**(224)**	–
Construction management fee income		**(29,245)**	–
Equity settled share-based payment expenses		**5,303**	12,606
Operating cash flows before movements in working capital		**(18,045)**	8,771
Increase in inventories		**(15)**	(1,111)
Increase in film production in progress		**(15,308)**	(6,977)
Decrease/(Increase) in trade receivables		**5,820**	(4,326)
Decrease/(Increase) in prepayments, deposits and other receivables		**4,770**	(18,370)
Receipt/(Payment) of financial assets at fair value through profit or loss		**13,472**	(13,409)
Decrease in trade payables		**(257)**	(1,732)
(Decrease)/Increase in other payables and accruals	42	**(3,688)**	12,425
Net cash used in operating activities		**(13,251)**	(24,729)

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Cash flows from investing activities			
Interest received		**13**	42
Dividend received		**313**	512
Acquisition of subsidiaries, net of cash acquired	43	**–**	(28,597)
Purchases of property, plant and equipment		**(2,979)**	(2,660)
Additions of construction in progress	42	**(36,380)**	(38,145)
Additions of investment properties	42	**(44,626)**	(45,599)
Proceeds from disposals of property, plant and equipment		**11,994**	–
Net cash used in investing activities		**(71,665)**	(114,447)
Cash flows from financing activities			
Interest paid		**(7,355)**	(50)
Repayment to a director		**(3,031)**	–
Receipts of short-term borrowings		**60,000**	–
Repayments of short-term borrowings		**(38,191)**	(544)
Loans from a related company		**13,400**	–
Repayment of finance lease obligation		**(64)**	–
Repayment of convertible bonds		**(121,500)**	–
Proceeds from shares issued under share option scheme		**–**	244
Proceeds from shares issued under rights issue		**324,502**	–
Proceeds from shares issued upon exercise of bonus warrants		**3,400**	–
Shares issue expenses		**(10,219)**	(199)
Net cash generated from/(used in) financing activities		**220,942**	(549)
Increase/(Decrease) in cash and cash equivalents		**136,026**	(139,725)
Cash and cash equivalents at 1 January		**21,327**	160,827
Effect of foreign exchange rate changes		**164**	225
Cash and cash equivalents at 31 December	26	**157,517**	21,327

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, Kwun Tong, 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 "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 32 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 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 2012:

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets

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.

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

Amendments to HKFRS 7 – Disclosures – Transfers of Financial Assets

The amendments to HKFRS 7 expand the disclosure requirements for transfer transactions of financial assets, in particular where the reporting entity has continuing involvement in financial assets that it has derecognised. The newly required disclosures allow users of financial statements to better understand the risks to which the reporting entity remains exposed. And such information is relevant in assessing the amount, timing and uncertainty of the entity's future cash flows. As the Group does not have continuing involvement in the derecognised assets, the amendments have no material impact on the financial statements of the Group.

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

The amendments to HKAS 12 introduce a rebuttable presumption that an investment property which is stated at fair value under HKAS 40 "Investment Property" is recovered entirely through sale. The measurement of the deferred tax liability or deferred tax asset reflects the tax consequences of recovering the carrying amount of the investment property 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. If this presumption is rebutted, the amount of deferred tax is measured based on the expected manner in which the carrying amount of the investment property would be recovered, using the appropriate tax rates enacted or substantially enacted at the reporting date (see note 3.16).

The Group has investment properties measured at fair value of HK$513,426,000 as at 31 December 2012 (2011: HK$440,775,000) as disclosed in note 16. The Group has rebutted the presumption in respect of its investment properties located in the People's Republic of China (the "PRC") with a carrying amount of HK$513,426,000 (2011: HK$440,775,000) as they are assessed to be depreciable and are held by subsidiaries with a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time rather than through sale. Deferred tax in relation to these investment properties has not been re-measured.

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 2012.

HKFRSs (Amendments)	Annual Improvements 2009-2011 Cycle[2]
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income[1]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[3]
Amendments to HKFRS 7	Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]

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

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

HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 27 (2011)	Separate Financial Statements[2]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[2]
HKAS 19 (2011)	Employee Benefits[2]
HK(IFRIC) – Int 20	Stripping Costs of the Production Phase of a Surface Mine[2]
Amendments to HKFRS 1	Government loans[2]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment entities[3]

Notes:

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

Information on new or amended HKFRSs that have been issued but are not yet effective are expected to have impact on the Group's accounting policies is provided below.

HKFRSs (Amendments) – Annual Improvements 2009-2011 Cycle

(i) HKAS 1 Presentation of Financial Statements

The amendments clarify that the requirement to present a third statement of financial position when an entity applies an accounting policy retrospectively or makes a retrospective restatement or reclassification of items in its financial statements is limited to circumstances where there is a material effect on the information in that statement of financial position. The date of the opening statement of financial position is the beginning of the preceding period and not, as at present, the beginning of the earliest comparative period. The amendments also clarify that, except for disclosures required by HKAS 1.41-44 and HKAS 8, the related notes to the third statement of financial position are not required to be presented. An entity may present additional voluntary comparative information as long as that information is prepared in accordance with HKFRS. This may include one or more statements and not a complete set of financial statements. Related notes are required for each additional statement presented.

(ii) HKAS 16 Property, Plant and Equipment

The amendments clarify that items such as spare parts, stand-by equipment and servicing equipment are recognised as property, plant and equipment when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.

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

New or amended HKFRSs that have been issued but are not yet effective *(Continued)*
HKFRSs (Amendments) – Annual Improvements 2009-2011 Cycle *(Continued)*

(iii) HKAS 32 Financial Instruments: Presentation

The amendments clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 Income Taxes. Depending on the circumstances these items of income tax might be recognised in equity, other comprehensive income or in profit or loss.

(iv) HKAS 34 Interim Financial Reporting

The amendments clarifies that in interim financial statements, a measure of total assets and liabilities for a particular reportable segment need to be disclosed when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total assets and liabilities for that segment from the amount disclosed in the last annual financial statements.

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

The amendments to HKAS 1 (Revised) require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit and loss in the future (e.g. revaluations of available-for-sale financial assets) and those that may not (e.g. revaluations of property, plant and equipment). Tax on items of other comprehensive income is allocated and disclosed on the same basis. The amendments will be applied retrospectively.

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.

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

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

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 implentation 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.

HKFRS 11 – Joint Arrangements

Joint arrangements under HKFRS 11 have the same basic characteristics as joint ventures under HKAS 31. Joint arrangements are classified as either joint operations or joint ventures. Where the Group has rights to the assets and obligations for the liabilities of the joint arrangement, it is regarded as a joint operator and will recognise its interests in the assets, liabilities, income and expenses arising from the joint arrangement. Where the Group has rights to the net assets of the joint arrangement as a whole, it is regarded as having an interest in a joint venture and will apply the equity method of accounting. HKFRS 11 does not allow proportionate consolidation. In an arrangement structured through a separate vehicle, all relevant facts and circumstances should be considered to determine whether the parties to the arrangement have rights to the net assets of the arrangement. Previously, the existence of a separate legal entity was the key factor in determining the existence of a jointly controlled entity under HKAS 31. HKFRS 11 will be applied retrospectively with specific restatement requirements for a joint venture which changes from proportionate consolidation to the equity method and a joint operation which changes from equity method to accounting for assets and liabilities.

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

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

HKFRS 12 – Disclosure of Interests in Other Entities

HKFRS 12 integrates and makes consistent the disclosures requirements about interests in subsidiaries, associates and joint arrangements. It also introduces new disclosure requirements, including those related to unconsolidated structured entities. The general objective of the standard is to enable users of financial statements to evaluate the nature and risks of a reporting entity's interests in other entities and the effects of those interests on the reporting entity's financial statements.

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 new 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 and investment properties 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

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

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

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.

3.3 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.

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 Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the financial statements and classified according to the nature of the relevant item. Liabilities and expenses which the Group has incurred in respect of its interest in the jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of its share of the output of the jointly controlled assets together with its share of any relating expenses is recognised when it is probable that the economic benefits associated with the transaction will flow to/from the Group.

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

3.5 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 3.11).

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.

3.6 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)*

3.7 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.

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

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

Sale of goods is recognised when the significant risk and rewards of ownership of the goods have been transferred to the buyers.

Rental income under operating leases is recognised over the lease term. Contingent rentals are recognised on the accounting period when they are incurred.

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

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

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

3.8 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 as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. 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)*

3.9 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 investment properties are recognised in profit or loss in the year of the retirement or disposal.

3.10 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.

3.11 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.

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.

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

3.11 Impairment of non-financial assets *(Continued)*

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.

3.12 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.

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

3.12 Film products and film production in progress *(Continued)*

Film production in progress

Film production in progress is stated at cost less any impairment losses (note 3.11). 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.

3.13 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.

3.14 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.

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

3.14 Financial assets *(Continued)*

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 3.7 to these consolidated financial statements.

(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.

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

3.14 Financial assets *(Continued)*

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.

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.

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

3.14 Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

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.

3.15 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.

3.16 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.

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

3.16 Accounting for income taxes *(Continued)*

An exception to the general requirement on determining the appropriate tax rate used in measuring deferred tax amount is when an investment property is carried at fair value under HKAS 40 "Investment Property". Unless the presumption is rebutted, the deferred tax amounts on these investment properties are measured using the tax rates that would apply on sale of these investment properties at their carrying amounts at the reporting date. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all the economic benefits embodied in the property over time, rather than through sale.

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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.17 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.

3.18 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.

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

Short-term employee benefits

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

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

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

3.20 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.

3.21 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 3.22).

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.

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.

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

3.21 Financial liabilities *(Continued)*

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/retained earnings.

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.

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

3.23 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.

3.24 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.

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

3.24 Related parties *(Continued)*

(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.

3.25 Segment reporting

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

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

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

3.26 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 3.11. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows.

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

Allowance for and write off of irrecoverable receivables

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

Impairment of non-financial assets (other than goodwill)

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

Estimated impairment loss on film products and film production in progress

Management regularly reviews the recoverability of the Group's film products and film production in progress with reference to 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 2012 was HK$513,426,000 (2011: HK$440,775,000).

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

Estimation of fair value of long-term other receivables

The long-term other receivables represent consideration receivables regarding the construction management agreement with a local government company in the PRC (note 24). The Group estimates the fair value of consideration receivables by determining the fair value of the property transferred based on an independent professional appraisal. The Group also projects the future cash receipt of the consideration receivables based on reliable estimates of future cash flows derived from the repayment terms in accordance with the construction management agreement. The difference between the fair value and actual receipt of the consideration implies a discount rate to reflect the Group's assessment of the uncertainty in the amount and timing of the cash flows. These estimates and projections are determined by the Group's management based on their experience and assessment on current and future market condition.

5. REVENUE/TURNOVER AND OTHER OPERATING INCOME

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

	2012 **HK$'000**	2011 HK$'000
Continuing operations		
Artiste management fee income	**2,016**	3,697
Entrance fee income	**1,991**	299
Films production and licensing income	**1,274**	11,983
Rental income	**596**	–
Sales of goods	**912**	137
	6,789	16,116

Other operating income recognised during the year is as follows:

	2012 **HK$'000**	2011 HK$'000
Continuing operations		
Bank interest income	**13**	42
Construction management fee income (note 24)	**29,245**	–
Dividend income from financial assets at fair value through profit or loss	**313**	512
Forfeiture of deposit received for entrance fee income	**–**	3,200
Gain on disposals of financial assets at fair value through profit or loss (note 25)	**1,861**	–
Gain on disposals of property, plant and equipment (note 15)	**3,928**	–
Gain on early redemption of convertible bonds	**224**	–
Interest income on financial assets stated at amortised cost (note 24)	**5,407**	–
Others	**57**	421
	41,048	4,175

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

Films production and distribution and artiste management	–	Production and distribution of films and provision of management services to artistes
Film studio operation	–	Operation of film studio
Hotel operation	–	Operation of hotel

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

Segment revenues and results

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

	Films production and distribution and artiste management HK$'000	Film studio operation HK$'000	Hotel operation HK$'000	Inter-segment elimination HK$'000	Total HK$'000
Year ended 31 December 2012					
Revenue from external customers	**3,290**	**3,454**	**45**	**–**	**6,789**
Inter-segment revenue	**–**	**1,395**	**639**	**(2,034)**	**–**
Reportable segment revenue	**3,290**	**4,849**	**684**	**(2,034)**	**6,789**
Reportable segment (loss)/profit	**(9,366)**	**2,385**	**(7,918)**	**–**	**(14,899)**
Other operating income					**35,259**
Gain on disposals of financial assets at fair value through profit or loss					**1,861**
Gain on disposals of property, plant and equipment					**3,928**
Equity settled share-based payment expenses					**(5,303)**
Unallocated corporate expenses					**(8,399)**
Finance costs					**(9,550)**
Profit before income tax from continuing operations					**2,897**

6. SEGMENT INFORMATION *(Continued)*

Segment revenues and results *(Continued)*

	Films production and distribution and artiste management HK$'000	Film studio operation HK$'000	Hotel operation HK$'000	Total HK$'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

Revenue reported above represents revenue generated from external customers and inter-segment sales during the year (2011: no inter-segment sales).

Segment profit/(loss) represents the profit/(loss) incurred by each segment without allocation of central administration costs including directors' salaries, gain on 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

	Films production and distribution and artiste management HK$'000	Film studio operation HK$'000	Hotel operation HK$'000	Total HK$'000
At 31 December 2012				
Reportable segment assets	**24,657**	**637,624**	**234,344**	**896,625**
Property, plant and equipment				**7,472**
Cash and cash equivalents				**103,481**
Unallocated corporate assets				**163**
Consolidated assets				**1,007,741**
Reportable segment liabilities	**(4,466)**	**(42,674)**	**(87,623)**	**(134,763)**
Loans from a related company				**(13,400)**
Borrowings				**(25,000)**
Deferred tax liabilities				**(34,331)**
Provision for income tax				**(2,951)**
Unallocated corporate liabilities				**(3,481)**
Consolidated liabilities				**(213,926)**
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 corporate assets				3,354
Consolidated assets				671,309
Reportable segment liabilities	(2,286)	(28,695)	(18,972)	(49,953)
Convertible bonds				(85,287)
Borrowings				(3,191)
Deferred tax liabilities				(32,344)
Unallocated corporate liabilities				(473)
Consolidated liabilities				(171,248)

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

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

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

6. SEGMENT INFORMATION *(Continued)*

Other segment information

	Films production and distribution and artiste management HK$'000	Film studio operation HK$'000	Hotel operation HK$'000	Total HK$'000
Year ended 31 December 2012				
Depreciation of property, plant and equipment	**570**	**272**	**261**	**1,103**
Amortisation of land lease prepayments	**–**	**–**	**2,257**	**2,257**
Impairment of goodwill	**8,974**	**–**	**–**	**8,974**
Change in fair value of investment properties	**–**	**(7,950)**	**–**	**(7,950)**
Additions to non-current assets	**–**	**76,041**	**102,372**	**178,413**
Year ended 31 December 2011				
Depreciation of property, plant and equipment	736	201	6	943
Amortisation of land lease prepayments	–	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	–	311,400	88,458	399,858

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$1,074,000 (2011: HK$9,848,000) which arose from film products distribution from the Group's largest customer.

7. FINANCE COSTS

	2012 HK$'000	2011 HK$'000
Continuing operations		
Finance lease charges	**1,984**	437
Interest on bank overdrafts	**104**	–
Interest on convertible bonds	**9,924**	7,720
Interest on other borrowings wholly repayable within five years	**3,057**	–
Interest on secured bank borrowings wholly repayable within five years	**13**	50
	15,082	8,207
Less: Amount capitalised in construction in progress	**(5,532)**	–
	9,550	8,207

The weighted average capitalisation rate of borrowings was 10.91% (2011: Nil) per annum for the year.

8. PROFIT BEFORE INCOME TAX

	2012 HK$'000	2011 HK$'000
Continuing operations		
Profit before income tax is arrived at after charging:		
Amortisation of film products*	**–**	31,193
Amortisation of land lease prepayments	**2,257**	5,719
Auditor's remuneration	**575**	460
Change in fair value of financial assets at fair value through profit or loss	**–**	3,934
Costs of inventories recognised as expenses	**440**	52
Depreciation of property, plant and equipment	**1,915**	1,984
Impairment of film products*	**–**	7,874
Impairment of goodwill	**8,974**	–
Minimum lease payments under operating leases in respect of rented premises	**3,852**	4,069

* Included in cost of film production

9. INCOME TAX EXPENSE

	2012 HK$'000	2011 HK$'000
Current tax – the PRC income tax	**2,951**	–
Deferred tax (note 35)	**1,987**	32,344
	4,938	32,344

Hong Kong profits tax is calculated at 16.5% (2011: 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. The PRC foreign enterprise income tax has not been provided as the PRC subsidiaries incurred losses for taxation purposes for both years. The PRC income tax charged during the year represented the tax levied on a Hong Kong subsidiary of the Group at 10% in respect of income derived from the source within the PRC.

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

	2012 HK$'000	2011 HK$'000
Profit before income tax		
– Continuing operations	**2,897**	57,855
– Discontinued operations	**–**	3,556
	2,897	61,411
Tax at the applicable tax rate of 16.5%	**478**	10,133
Tax effect of different tax rates of subsidiaries	**(469)**	10,997
Tax effect of non-deductible expenses	**3,635**	2,394
Tax effect of non-taxable revenue	**(4,662)**	(1,023)
Tax effect of unrecognised tax losses	**5,967**	9,858
Tax effect of temporary difference not recognised	**(11)**	(15)
Income tax expense	**4,938**	32,344

10. DISCONTINUED OPERATIONS

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 Slivercord Management Limited at a cash consideration of HK$1 (the "Disposal"). The Disposal resulted in 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 operations included in the consolidated statement of comprehensive income during the period from 1 January 2011 to 30 March 2011 represented the gain on disposal of subsidiaries amounted to HK$3,556,000 (note 42) and no cash flow was used in discontinued operations during the period.

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$46,597,000 (2011: HK$25,757,000) 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$12,917,000 (2011: HK$11,410,000) and the weighted average of approximately 1,344,789,000 (2011: approximately 1,254,753,000 as restated to reflect the rights issue of the Company in December 2012) 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 2012 and 2011 was the same as basic loss per share because the impact of the exercise of the share options, warrants and convertible bonds 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$12,917,000 (2011: HK$14,966,000) and the weighted average number of approximately 1,344,789,000 (2011: approximately 1,254,753,000 as restated to reflect the rights issue of the Company in December 2012) 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 2012 and 2011 was the same as basic loss per share because the impact of the exercise of the share options, warrants and convertible bonds is anti-dilutive.

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

From discontinued operations

The calculation of basic and diluted earnings per share from discontinued operations attributable to the owners of the Company for the year ended 31 December 2011 is based on the following data:

	2011 '000 (Restated)
Number of shares	
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,254,753
Effect of dilutive potential ordinary shares:	
Share options	63,830
Warrants	78,748
Weighted average number of ordinary shares for the purpose of diluted earnings per share computation	1,397,331

Basic earnings per share for profit attributable to the owners of the Company from discontinued operations for the year ended 31 December 2011 is HK0.28 cents (restated), based on the profit for the year from discontinued operations of HK$3,556,000 and the weighted average number of approximately 1,254,753,000 (as restated to reflect the rights issue of the Company in December 2012) 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 HK0.25 cents (restated), based on the profit for the year from discontinued operations of HK$3,556,000 and the weighted average of approximately 1,397,331,000 (as restated to reflect the rights issue of the Company in December 2012) ordinary shares outstanding during the year.

13. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	2012 HK$'000	2011 HK$'000
Continuing operations		
Salaries and allowances	**11,107**	7,702
Equity settled share-based payment expenses	**5,303**	12,606
Retirement benefit costs	**494**	187
	16,904	20,495

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 2012					
Executive directors					
Ms. Law Po Yee	–	566	1,575	14	2,155
Ms. Sin Ho Yee	–	129	623	7	759
Mr. Chow Kai Weng	–	495	161	14	670
Non-executive directors					
Mr. Sin Kwok Lam	–	1,226	1,575	14	2,815
Mr. Lam Kwok Hing, Wilfred	46	–	865	–	911
Mr. Li Sin Hung, Maxim	30	–	38	–	68
Independent non-executive directors					
Mr. Chan Tin Lup, Trevor	46	–	151	–	197
Mr. Chiu Chi Yun, Robert	46	–	151	–	197
Prof. Wong Lung Tak, Patrick	49	–	151	–	200
	217	2,416	5,290	49	7,972

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 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. Chui Chi Yun, Robert	40	–	42	–	82
Prof. Wong Lung Tak, Patrick	40	–	42	–	82
	222	2,116	12,544	43	14,925

Notes:

1. Appointed on 25 March 2011
2. Resigned on 9 May 2011
3. Re-designated as a non-executive director from an executive director on 9 May 2011

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2012 and 2011.

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 five (2011: four) directors whose emoluments are reflected in the analysis presented in note 14.1 above. The emoluments payable to the remaining one individual during the year ended 31 December 2011 are as follows:

	2011 HK$'000
Salaries and allowances	435
Equity settled share-based payment expenses	–
Retirement benefit costs	8
	443

The emoluments were within the following band:

	Number of individual 2011
NIL to HK$1,000,000	1

During the year, no emoluments were paid by the Group to the directors or the nil (2011: one) highest paid individual as an inducement to join or upon joining the Group or as compensation for loss of office.

During the year, the emoluments paid or payable to members of senior management were within the following bands:

	Number of individual	
	2012	2011
NIL to HK$1,000,000	**7**	6
HK$1,500,001 to HK$2,000,000	**–**	1
HK$2,000,001 to HK$2,500,000	**1**	1
HK$2,500,001 to HK$3,000,000	**1**	–
HK$4,500,001 to HK$5,000,000	**–**	1
HK$5,000,001 to HK$5,500,000	**–**	1

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 2011						
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 43)	–	74	46	150	2,372	2,642
Transfer to investment properties (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
Year ended 31 December 2012						
Opening net book amount	13,047	525	872	3,688	41,314	59,446
Additions	–	558	2,251	170	111,085	114,064
Reclassifications	8,525	–	–	–	(8,525)	–
Disposals	(6,560)	(351)	–	(1,155)	(50,656)	(58,722)
Depreciation	(319)	(591)	(360)	(645)	–	(1,915)
Exchange realignment	5	–	(6)	18	30	47
Closing net book amount	**14,698**	**141**	**2,757**	**2,076**	**93,248**	**112,920**
At 31 December 2012						
Cost	15,237	1,683	3,617	2,956	93,248	116,741
Accumulated depreciation	(539)	(1,542)	(860)	(880)	–	(3,821)
Net book amount	**14,698**	**141**	**2,757**	**2,076**	**93,248**	**112,920**

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

The carrying amount of leasehold land and buildings shown above are situated on:

	2012	2011
	HK$'000	HK$'000
Land in Hong Kong under medium-term leases	**6,279**	13,047
Land in the PRC under medium-term leases	**8,419**	–
	14,698	13,047

During the year ended 31 December 2012, certain of the Group's construction in progress with carrying amount of approximately HK$50,656,000 had been transferred to a local government company located in Foshan City, the PRC. Details are disclosed in note 24.

During the year ended 31 December 2012, certain of the Group's leasehold land and buildings, leasehold improvements and motor vehicles with carrying amounts of approximately HK$6,560,000, HK$351,000 and HK$1,155,000 respectively have been disposed to independent third parties at the total net consideration of approximately HK$11,994,000. A gain on disposals of property, plant and equipment amounted to approximately HK$3,928,000 was recognised in profit or loss during the year.

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 were pledged to secure the Group's banking borrowings (note 32). During the year ended 31 December 2012, the outstanding bank borrowings have been fully repaid and the pledge has been released accordingly.

The Group's leasehold land and buildings had an aggregate net book amount at 31 December 2012 of approximately HK$6,279,000 (2011:Nil) were pledged to obtain banking facility for overdrafts.

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 2011			
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
Year ended 31 December 2012			
Opening net book amount	193	–	193
Additions	3	–	3
Depreciation	(57)	–	(57)
Closing net book amount	**139**	**–**	**139**
At 31 December 2012			
Cost	287	200	487
Accumulated depreciation	(148)	(200)	(348)
Net book amount	**139**	**–**	**139**

16. INVESTMENT PROPERTIES

The Group

	2012 **HK$'000**	2011 HK$'000
At 1 January	**440,775**	–
Reclassified from land lease prepayments (note 17)	**–**	248,958
Reclassified from property, plant and equipment (note 15)	**–**	39,456
Additions	**64,701**	22,986
Change in fair value	**7,950**	129,375
At 31 December	**513,426**	440,775

The fair value of the Group's investment properties at 31 December 2012 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 43)	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

17. LAND LEASE PREPAYMENTS *(Continued)*

	HK$'000
Year ended 31 December 2012	
Opening net book amount	92,759
Amortisation	(2,257)
Disposal (note 24)	(5,750)
Closing net book amount	**84,752**
At 31 December 2012	
Cost	92,579
Accumulated amortisation	(7,827)
Net book amount	**84,752**

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

18. INTERESTS IN SUBSIDIARIES

The Company

	2012 HK$'000	2011 HK$'000
Unlisted shares, at cost	**25,557**	25,557
Less: Provision for impairment	**(25,547)**	(16,547)
	10	9,010

During the year ended 31 December 2012, the directors of the Company considered and reviewed the carrying amount of investment in subsidiaries, impairment loss of HK$9,000,000 (2011: Nil) has been identified and recognised in profit or loss of the Company during the year in view of impairment of goodwill and persistent losses incurred for the subsidiaries.

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the Company's principal subsidiaries at 31 December 2012 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	Indirectly	Principal activities
National Arts Entertainment Limited ("NA Entertainment")	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
National Arts Films Production Limited ("NA Films")	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
Glory Max Group Limited	British Virgin Islands	Ordinary US$1	100%	–	Investment holding

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		Principal activities
			Directly	Indirectly	
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$3,365,829	–	51%	Hotel operation
佛山市匯首景區開發有限公司	PRC	Registered US$17,339,500	–	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

Notes: (i) The above table includes the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results of the Group for the year and formed a substantial portion of the assets and liabilities of the Group at the end of the reporting period. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

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

19. GOODWILL

The Group

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

	2012 HK$'000	2011 HK$'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 1 January		
Net carrying amount	**8,974**	8,974
Impairment loss	**(8,974)**	–
Net carrying amount at 31 December	**–**	8,974
At 31 December		
Gross carrying amount	**20,456**	20,456
Accumulated impairment losses	**(20,456)**	(11,482)
Net carrying amount	**–**	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 15%.

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:

19. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

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.

As at 31 December 2012, the directors of the Company evaluated that the recoverable amount of the Film CGU is lower than its carrying amount in view of persistent losses previously incurred. Provision for impairment loss on goodwill of approximately HK$8,974,000 (2011: Nil) has been recognised during the year.

20. FILM PRODUCTS

The Group

	HK$'000
Cost:	
At 1 January 2011	30,500
Transfer from film production in progress (note 21)	35,134
At 31 December 2011 and 2012	**65,634**
Accumulated amortisation and impairment losses:	
At 1 January 2011	26,567
Provided during the year	31,193
Impairment during the year	7,874
At 31 December 2011 and 2012	**65,634**
Net book amount:	
At 31 December 2011 and 2012	**–**

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 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. There was no movement for the film products during the year ended 31 December 2012.

21. FILM PRODUCTION IN PROGRESS

The Group

	2012	2011
	HK$'000	HK$'000
At 1 January	**4,090**	32,247
Additions	**15,308**	6,977
Transfer to film products (note 20)	**–**	(35,134)
At 31 December	**19,398**	4,090

In July 2012, NA Films has signed a cooperation agreement (the "Agreement") with an independent third party (the "Party") for joint investment of the film "Ip Man – The Final Fight" (the "Film"). According to the Agreement, the Film is jointly owned by NA Films and the Party and the interests of the Film will be shared by NA Films and the Party in 68% and 32% respectively. As at 31 December 2012, the balance of film production in progress in the consolidated statement of financial position of the Group was therefore representing 68% of the production costs of the Film which had been incurred up to 31 December 2012.

22. TRADE RECEIVABLES

The Group

	2012	2011
	HK$'000	HK$'000
Trade receivables	**1,162**	6,982

The Group generally allows a credit period from 30 to 90 days (2011: 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:

	2012	2011
	HK$'000	HK$'000
0 to 60 days	**804**	5,214
61 to 90 days	**100**	15
91 to 180 days	**250**	23
Over 180 days	**8**	1,730
	1,162	6,982

22. TRADE RECEIVABLES *(Continued)*

At 31 December 2012, trade receivables of HK$904,000 (2011: HK$5,229,000) 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$258,000 (2011: HK$1,753,000) which were past due at the reporting date for which the Group has not provided for impairment loss. Trade receivables that are past due but not impaired relate to a number of customers and the directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

The directors considered that the fair values of trade receivables are not materially different from their carrying amounts because these amounts have short maturity periods at their inception.

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

	2012 **HK$'000**	2011 HK$'000
1 – 90 days past due	**250**	23
Over 90 days past due	**8**	1,730
	258	1,753

23. INVENTORIES

The Group

	2012 **HK$'000**	2011 HK$'000
Merchandise	**1,126**	1,111

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The Group and The Company

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Non-current assets				
Other receivables (note)	**98,097**	–	**–**	–
Current assets				
Prepayments	**5,552**	4,186	**372**	328
Rental deposits	**2,165**	1,783	**–**	–
Other deposits	**1,247**	413	**–**	–
Other receivables	**10,379**	17,852	**217**	354
	19,343	24,234	**589**	682
	117,440	24,234	**589**	682

Note: During the year ended 31 December 2012, certain of the Group's construction in progress (note 15), land lease prepayments (note 17) and other receivables with carrying amounts of approximately HK$50,656,000, HK$5,750,000 and HK$7,039,000 respectively had been transferred to a local government company in Foshan City, the PRC, at a consideration of Renminbi ("RMB") 74,700,000 (approximately HK$92,690,000) in accordance with the construction management agreement signed on 29 February 2012. Construction management fee income (note 5) amounted to approximately HK$29,245,000 was recognised in profit or loss during the year.

The amount due from the local government company is repayable in 40 years and is interest-bearing at standard interest rate of loan over five years of the People's Bank of China. Such amount of approximately HK$92,690,000 and corresponding interest receivable of approximately HK$5,407,000 were recognised as other receivables under non-current assets amounted to approximately HK$98,097,000 in total. The directors of the Company are of the opinion that the carrying amount of this balance is approximate to its fair value.

25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group and The Company

	2012	2011
	HK$'000	HK$'000
Listed equity investments in Hong Kong, at market value	**–**	11,611

The fair value of the listed equity investments is based on the quoted market bid price available on the Exchange. During the year ended 31 December 2012, the listed equity investments were all disposed and a gain on disposals amounted to approximately HK$1,861,000 was recognised in the consolidated statement of comprehensive income.

26. CASH AND CASH EQUIVALENTS

The Group and The Company

	The Group		**The Company**	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and cash equivalents	**157,517**	21,327	**103,257**	4,831

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

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

At 31 December 2012, included in cash and cash equivalents of the Group was HK$829,000 (2011: HK$2,829,000) of bank balances denominated in 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.

27. TRADE PAYABLES

The Group

The Group was granted by its suppliers' credit periods from 30 to 60 days (2011: 30 to 60 days). The following is the ageing analysis of trade payables at the reporting date:

	2012 HK$'000	2011 HK$'000
0 to 30 days	12	312
31 to 60 days	17	19
61 to 90 days	1	4
91 to 180 days	20	–
Over 180 days	29	–
	79	335

28. OTHER PAYABLES AND ACCRUALS

The Group and The Company

	The Group		The Company	
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
Accruals	2,715	3,162	1,156	421
Receipts in advance	1,121	–	–	–
Other payables (note)	115,565	25,467	705	495
	119,401	28,629	1,861	916

Note: Other payables mainly represented construction costs of film studio and hotel payable to the constructors.

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

The Group

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

Loans from a related company represented short-term interest bearing loans granted to NA Entertainment by First Credit Limited ("First Credit"), of which Mr. Sin Kwok Lam, a non-executive director of the Company, has significant influence. The loans are interest bearing at 12% per annum, repayable within one year and are secured by a corporate guarantee granted by the Company (note 46).

30. AMOUNTS DUE FROM SUBSIDIARIES

The Company

	2012 **HK$'000**	2011 HK$'000
Amounts due from subsidiaries	**587,128**	447,363
Less: Provision for impairment	**(141,113)**	(113,963)
	446,015	333,400

During the year ended 31 December 2012, the directors reviewed the carrying amount of the amounts due from subsidiaries with reference to the business operated by these subsidiaries and their net asset values, impairment loss of approximately HK$27,150,000 (2011: Nil) has been identified and recognised in profit or loss of the Company during the year.

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

31. AMOUNTS DUE TO SUBSIDIARIES

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

32. BORROWINGS

The Group and The Company

	The Group		**The Company**	
Current liabilities	**2012** **HK$'000**	2011 HK$'000	**2012** **HK$'000**	2011 HK$'000
Bank borrowings (note (a))				
Portion of loans from bank due for repayment within one year	**–**	551	**–**	–
Portion of loans from banks due for repayment after one year which contain a repayable on demand clause	**–**	2,640	**–**	–
	–	3,191	**–**	–
Other borrowings – unsecured (note (b))	**25,000**	–	**25,000**	–
	25,000	3,191	**25,000**	–

32. BORROWINGS *(Continued)*

Notes:

(a) 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 1.54% to 1.61% (2011: ranging from 1.40% to 1.54%) 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 and corporate guarantee executed by the Company.

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

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

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.

During 2012, the interest-bearing bank borrowings of had been fully repaid by the Group. The pledge of leasehold land and buildings and corporate guarantee executed by the Company had been released during the year.

(b) Other borrowings are unsecured and bear fixed interest rates at 10% and 12% per annum from two independent third parties. The balances are due within 12 months of the reporting date and are all denominated in HK$.

33. FINANCE LEASE OBLIGATION

The Group

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

	Minimum lease payment 2012 HK$'000	Interest 2012 HK$'000	Present value 2012 HK$'000
Not later than one year	**3,883**	**1,922**	**1,961**
Later than one year but not later than five years	**7,796**	**7,648**	**148**
Later than five years	**62,290**	**46,786**	**15,504**
	73,969	**56,356**	**17,613**

	2011 HK$'000	2011 HK$'000	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

The present values of future lease payments are analysed as:

	2012 HK$'000	2011 HK$'000
Current liabilities	**1,961**	1,875
Non-current liabilities	**15,652**	15,405
	17,613	17,280

34. CONVERTIBLE BONDS

The Group and The Company

	2012	2011
	HK$'000	HK$'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 were 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	1% per annum
Conversion price	HK$1.1 per share	HK$1.1 per share

As disclosed in note 43 in relation to the acquisition of subsidiaries, both CB1 and CB2 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 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$. During the year ended 31 December 2012, CB1 and CB2 were fully redeemed by cash at their total principal amounts of HK$121,500,000. The convertible bonds which were repayable as at 31 December 2011 as follows:

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

34. CONVERTIBLE BONDS *(Continued)*

The movement of the liability components of the convertible bonds recognised in the statement of financial position are as follows:

	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 2011 and 1 January 2012	85,287
Interest expense (note 7)	9,924
Interest paid	(2,197)
Early redemption during the year	(93,014)
Liability components at 31 December 2012	**–**

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

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

The Company has early redeemed the CB1 and CB2 by cash at HK$121,500,000 on 20 December 2012. A gain on redemption of convertible bonds of approximately HK$224,000 which represented the difference between the redemption price allocated to liability components amounted to approximately HK$92,790,000 and the total carrying amounts of the liability components of both convertible bonds amounted to approximately HK$93,014,000 has been credited to the consolidated statement of comprehensive income for the year ended 31 December 2012. Upon the early redemption of both convertible bonds, the difference of approximately HK$34,044,000 between the carrying amounts of equity components included in convertible bonds equity reserve of approximately HK$62,754,000 and the redemption price allocated to equity components amounted to approximately HK$28,710,000 was released to accumulated losses/retained earnings.

Both convertible bonds were valued at the redemption date by an independent professional valuer. The fair values of the liability component of the convertible bonds were calculated using discounted rate method. The fair values of the equity component of the convertible bonds were estimated using Binomial Model.

35. DEFERRED TAX LIABILITIES

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 year.

	Change in fair value of investment properties HK$'000
At 1 January 2011	–
Charged to profit or loss for the year	32,344
At 31 December 2011 and 1 January 2012	32,344
Charged to profit or loss for the year	1,987
At 31 December 2012	**34,331**

The Group and The Company

At the reporting date, the Group and the Company had unused estimated tax losses of approximately HK$177,797,000 (2011: HK$149,320,000) and approximately HK$33,228,000 (2011: HK$44,527,000) respectively, which was subject to the agreement of the Hong Kong Inland Revenue Department and local tax authorities in the PRC and was available for offsetting against future taxable profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

36. SHARE CAPITAL

	Number of shares		Share capital	
	2012	2011	**2012**	2011
	'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	**801,254**	665,854	**8,012**	6,658
Issue of consideration shares (note (a))	**–**	135,000	**–**	1,350
Shares issued under share option scheme (note (b))	**–**	400	**–**	4
Shares issued under rights issue (note (c))	**3,245,016**	–	**32,450**	–
Shares issued under bonus warrants (note (d))	**10,000**	–	**100**	–
At 31 December	**4,056,270**	801,254	**40,562**	8,012

Notes:

(a) 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 43).

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

(c) On 18 October 2012, the Company proposed to raise funds by way of rights issue (the "Rights Issue") of minimum 3,245,016,556 rights shares (assuming no post initial public offering share options, new share options and bonus warrants are exercised) and a maximum of 3,698,616,556 rights shares (assuming all post initial public offering share options, new share options and bonus warrants are exercised (except those held by Mr. Sin Kwok Lam and Ms. Law Po Yee) in full) at the subscription price of HK$0.10 per rights share on the basis of four rights shares for every one existing share of the Company. The Rights Issue became unconditional on 20 December 2012.

On 20 December 2012, 3,245,016,556 rights shares were issued at the subscription price of HK$0.10 per rights share, resulting in an increase in share capital and share premium of the Group of approximately HK$32,450,000 and HK$292,052,000 respectively.

(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 ("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.

36. SHARE CAPITAL *(Continued)*

Notes: *(Continued)*

(d) During the year and before the Rights Issue (note 36(c)), 10,000,000 warrants were exercised at the exercise price of HK$0.34 per warrant, resulting in an increase in share capital and share premium of the Group of approximately HK$100,000 and HK$3,300,000 respectively. The remaining number of warrants and their exercise price are adjusted to 125,652,174 and HK$0.23 respectively as a result of the Rights Issue completed on 20 December 2012.

37. 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 37 to 38 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.

The contributed surplus account was designated by the Company within the meaning of the Companies Act 1981 of Bermuda which represented (i) the entire amounts standing to the credit balance of the share premium account of the Company as at 30 June 2010; (ii) the transfer of the share premium arising from capital reduction on 29 September 2010; and (iii) the offset with the accumulated losses in full up to 31 December 2010.

37. 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 2011	122,282	2,787	–	76,471	9,455	–	210,995
Issue of shares	4,540	–	–	–	–	–	4,540
Shares issued under share option scheme	318	–	–	–	(78)	–	240
Issue of convertible bonds	–	–	62,754	–	–	–	62,754
Employee share-based compensation	–	–	–	–	12,606	–	12,606
Shares 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 and 1 January 2012	126,941	(25)	62,754	76,471	21,002	(21,964)	265,179
Shares issued upon exercise of bonus warrants	3,300	–	–	–	–	–	3,300
Shares issued under rights issue	292,052	–	–	–	–	–	292,052
Employee share-based compensation	–	–	–	–	5,303	–	5,303
Shares issue expenses	(10,219)	–	–	–	–	–	(10,219)
Loss for the year	–	–	–	–	–	(46,597)	(46,597)
Transfer of lapsed options to accumulated losses	–	–	–	–	(76)	76	–
Redemption of convertible bonds (note 34)	–	–	(28,710)	–	–	–	(28,710)
Transfer upon redemption of convertible bonds (note 34)	–	–	(34,044)	–	–	34,044	–
At 31 December 2012	**412,074**	**(25)**	**–**	**76,471**	**26,229**	**(34,441)**	**480,308**

37. 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.

38. 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:

	2012	2011
	HK$'000	HK$'000
Within one year	**3,711**	2,819
In the second to fifth year inclusive	**14,169**	10,849
Over five years	**111,128**	111,600
	129,008	125,268

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. One piece of land had been recognised as finance lease obiligation as disclosed in note 33. The leases do not include contingent rentals.

The Company

At 31 December 2012, the Company had no significant operating lease commitments (2011:Nil).

39. CAPITAL COMMITMENTS

The Group

At 31 December 2012, the Group had the following capital commitments:

	2012 HK$'000	2011 HK$'000
Contracted but not provided for:		
Construction of properties (note (a))	107,001	60,619
Formation of a jointly controlled entity (note (b))	11,400	–
	118,401	60,619
Authorised but not contracted for:		
Construction of properties (note (a))	17,037	226,436

Notes:

(a) Capital commitment for construction in properties related to capital commitment for construction of film studio and hotel in Foshan, the PRC. The authorised amount was approved by the directors of the Company according to the land lease agreements signed between the Group and the local authority in Foshan, the PRC, in relation to the leasing of lands for development of tourism and related entertainment business and hotel operations as disclosed in note 46.

(b) On 17 December 2012, one of the subsidiaries of the Company, NA Films, entered into a joint venture agreement (the "JV agreement") with an independent third party to establish a jointly controlled entity (the "JCE") for the development of cinema business. According to the JV agreement, the registered capital of the JCE to be injected will be HK$19,000,000 in which 60% will be held by NA Films. The amount of HK$11,400,000, representing the registered capital of the JCE to be injected by NA Films, is thus shown as capital commitment of the Group as at 31 December 2012.

The Company

At 31 December 2012, the Company had no significant capital commitment (2011: Nil).

40. SHARE-BASED EMPLOYEE COMPENSATION

As at 31 December 2012, the Group had share options schemes for employee compensation as set out below.

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

40.1 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, 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 Nil (2011: 196,507) equivalent to approximately Nil% (2011: 0.02%) 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.

As at 31 December 2012, no share option under the Pre-IPO Share Option Scheme is outstanding. As at 31 December 2011, the share options to subscribe for an aggregate of 196,507 shares of the Company at a subscription price of HK$3.06 were granted by the Company to the directors of the Company, 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.

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

40.2 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;

(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 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 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;

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

40.2 Post initial public offering share option scheme *(Continued)*

(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; and

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

Pursuant to a special resolution passed in the extraordinary general meeting of the Company, the Post-IPO Option Scheme was terminated on 29 September 2010.

40.3 New share option scheme

Pursuant to a special resolution passed in the extraordinary general meeting of the Company, a new share option scheme (the "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;

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

40.3 New share option scheme *(Continued)*

(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 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 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;

(vi) The total number of shares which may be issued upon exercise of all share options to be granted under the New Scheme and any other schemes in aggregate not exceeding 10 per cent of the issued share capital of the Company as at 29 June 2012 (2011: 5 May 2011), amounting to 808,254,139 (2011: 800,854,139) 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

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

40.3 New share option scheme *(Continued)*

(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.

On 31 March 2012, the board of directors proposed to grant 4,000,000 share options to the Company's directors at exercise price of HK$0.94 per share. The grant of share options was approved by the independent non-executive directors on 31 March 2012.

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 1 January 2012	Granted during the year	Lapsed during the year Note (c)	Exercise during the year	Adjusted upon rights issue Note (d)	Outstanding at 31 December 2012
Option type						
Pre-IPO Option Scheme	196,507	–	(196,507)	–	–	–
Post-IPO Option Scheme	77,650,000	–	–	–	46,605,234	124,255,234
New Scheme	60,500,000	4,000,000	(300,000)	–	39,821,999	104,021,999
	138,346,507	4,000,000	(496,507)	–	86,427,233	228,277,233
Exercisable at the end of the year						228,277,233
Weighted average exercise price	HK$0.835	HK$0.94	HK$1.98	–	N/A	HK$0.52

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

40.3 New share option scheme *(Continued)*

	Number of share options				
	Outstanding at 1 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

Notes:

(a) The exercise price of options outstanding at the end of the year ranged between HK$0.30 and HK$0.79 (2011: HK$0.48 and HK$3.06) and their weighted average remaining contractual life was 7.8 years (2011: 8.9 years).

(b) No options were exercised during the years ended 31 December 2012. The weighted average share price at the date of exercise of options exercised during the year ended 31 December 2011 was HK$1.20.

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

(d) As a result of the Rights Issue on 20 December 2012, the numbers of share options and their exercise prices have been adjusted.

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

40.3 New share option scheme *(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 2012 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 Note (a)	Risk-free interest rate	Expected volatility	Dividend yield	Life of options
13 May 2010	HK$0.0194	HK$0.38	2.7%	81%	Nil	10 years
20 May 2010	HK$0.0113	HK$0.35	2.6%	80%	Nil	10 years
29 September 2010	HK$0.0106	HK$0.30	2.7%	64%	Nil	10 years
28 March 2011	HK$0.2733	HK$0.79	0.28%	59%	Nil	10 years
31 March 2012	HK$0.3450	HK$0.58	0.28%	60%	Nil	5 years

Notes:

(a) The exercise prices of the share options disclosed above have been adjusted for the effect of the Rights Issue.

(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 5 or 10 years commencing on the date of grant.

(d) Risk-free interest rate: being the approximate yields of 5 or 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$5,303,000 (2011: HK$12,606,000) in consolidated statement of comprehensive income in relation to share options granted to the directors and employees by the Company, with a corresponding adjustment recognised in the Group's share option reserve.

41. RELATED PARTY TRANSACTIONS

41.1 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:

	2012 **HK$'000**	2011 HK$'000
Interest paid to a related company	**1,334**	–

Note:

During the year ended 31 December 2012, interest expense of HK$1,334,000 was paid to First Credit in which Mr. Sin Kwok Lam is also a director of this company.

41.2 Compensation of key management personnel of the Group

The directors of the Company 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.

42. 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	–	–	–

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

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.

Construction costs payable

As at 31 December 2012, amounted to approximately HK$69,173,000 and HK$20,075,000 of additions to construction in progress and investment properties respectively have not yet been paid and recorded under "Other payable and accruals" in the consolidated statement of financial position.

Non-current other receivable

As at 31 December 2012, the amount due from the local government company represented the consideration receivable amounted to approximately HK$92,690,000 in relation to the construction management agreement and recorded as "Other receivables" under non-current assets in the consolidated statement of financial position. Details are disclosed in note 24.

43. 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） respectively, for carrying on tourism and entertainment related business, commencing from 3 October 2010 for 20 years and renewable for another 20 years automatically.

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 favorable 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.

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

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 (note 15)	2,642	2,642
Land lease prepayments (note 17 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 outflow on acquisition		(28,597)

	HK$'000
Cash	30,000
Issue of CB1 (note 34)	94,478
Issue of CB2 (note 34)	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 favorable lease terms of two operating leases in which the acquiree was a lessee. The land lease prepayments were determined with reference to the valuation performed by RHL Appraisal Limited, an independent firm of qualified professional valuers.

44. 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, borrowings and amounts due from/to related parties. 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 of the Company manage and monitor these exposures to ensure appropriate measures are implemented in a timely and effective manner.

44.1 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 3.14 and 3.21 for explanations on how the category of financial instruments affects their subsequent measurement.

Financial assets – The Group

	2012	2011
	HK$'000	HK$'000
Financial asset at fair value through profit or loss		
– Investment held for trading	**–**	11,611
Loans and receivables		
Non-current assets		
– Other receivables	**98,097**	–
Current assets		
– Trade receivables	**1,162**	6,982
– Deposits and other receivables	**13,791**	20,048
– Cash and cash equivalents	**157,517**	21,327
	270,567	48,357

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

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

Financial assets – The Company

	2012 HK$'000	2011 HK$'000
Financial asset at fair value through profit or loss		
– Investment held for trading	–	11,611
Loans and receivables		
– Other receivables	**217**	354
– Amounts due from subsidiaries	**446,015**	333,400
– Cash and cash equivalents	**103,257**	4,831
	549,489	338,585

Financial liabilities – The Group

	2012 HK$'000	2011 HK$'000
Financial liabilities measured at amortised cost		
– Trade payables	**79**	335
– Other payables and accruals	**118,280**	28,629
– Amount due to a director	**1,151**	4,182
– Loans from a related company	**13,400**	–
– Borrowings	**25,000**	3,191
– Convertible bonds	–	85,287
– Finance lease obligation	**17,613**	17,280
	175,523	138,904

Financial liabilities – The Company

	2012 HK$'000	2011 HK$'000
Financial liabilities measured at amortised cost		
– Other payables and accruals	**1,861**	916
– Amounts due to subsidiaries	**2,279**	333
– Borrowings	**25,000**	–
– Convertible bonds	–	85,287
	29,140	86,536

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

44.2 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$"). The Group currently does not have a foreign currency hedging policy as the directors of the Company considered that the volatility of the exchange rates between HK$, RMB and US$ is limited. However, the directors of the Company monitor the foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

44.3 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 loans from a related company and borrowings which are subject to fixed interest rates are disclosed in notes 29 and 32 respectively. The Group's interest rate risk arises primary from long-term other receivables which are subject to variable interest rates as detailed in note 24 (2011: Nil). 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.

At 31 December 2012, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's loss for the year and increase/decrease the Group's retained earnings by approximately HK$490,000, but other components of equity would not be affected.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the reporting date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 50 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date.

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

44.4 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 38% (2011: 89%) of the total trade receivables are due from the Group's largest customer within film studio and theme park segment (2011: 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.

44.5 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.

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

44.5 Liquidity risk *(Continued)*

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 2012					
Trade and other payables and accruals	**118,359**	**–**	**–**	**118,359**	**118,359**
Loans from a related company	**13,674**	**–**	**–**	**13,674**	**13,400**
Borrowings	**26,870**	**–**	**–**	**26,870**	**25,000**
Amount due to a director	**1,151**	**–**	**–**	**1,151**	**1,151**
Finance lease obligation	**3,883**	**7,796**	**62,290**	**73,969**	**17,613**
	163,937	**7,796**	**62,290**	**234,023**	**175,523**
At 31 December 2011					
Trade, accruals 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

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

44.5 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 2012					
Other payables and accruals	**1,861**	**–**	**–**	**1,861**	**1,861**
Amounts due to subsidiaries	**2,279**	**–**	**–**	**2,279**	**2,279**
Borrowings	**26,870**	**–**	**–**	**26,870**	**25,000**
	31,010	**–**	**–**	**31,010**	**29,140**
Financial guaranteed issued:					
Corporate guarantee	**13,400**	**–**	**–**	**–**	**13,400**
At 31 December 2011					
Other payables and accruals	916	–	–	916	916
Amount due to a subsidiary	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

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.

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

44.5 Liquidity risk *(Continued)*

Maturity analysis – Term loans subject to a repayment on demand clause based on scheduled repayments

	On demand	Within 1 year	More than 1 year but less than 2 years	More than 2 year but less than 5 years	More than 5 years	Total undiscounted cash outflows
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2012	–	–	–	–	–	–
At 31 December 2011	–	598	598	1,794	347	3,337

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

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

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

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

–Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from 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 as at 31 December 2011 are grouped into the fair value hierarchy as follows:

	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

45. 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$40,562,000 (2011: HK$8,012,000).

The gearing ratio at the reporting date is as follows:

	2012	2011
	HK$'000	HK$'000
Total debts		
– Loans from a related company	**13,400**	–
– Borrowings	**25,000**	3,191
– Convertible bonds	**–**	85,287
– Finance lease obligation	**17,613**	17,280
	56,013	105,758
Total assets	**1,007,741**	671,309
Gearing ratio	**6%**	16%

At 31 December 2012, the Group's gearing ratio decreased to 6% as a result of early redemption of convertible bonds during the year.

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

46. CONTINGENT LIABILITIES

At 31 December 2012, the Company had corporate guarantee of HK$13,400,000 given to a related company to secure loans to NA Entertainment. No provision for the Company's obligation under the guarantee contract has been made as the directors considered that the Company has sufficient cash resources to repay the loans when they fall due and it is not probable that a claim will be made against the Company under the guarantee contract.

At 31 December 2011, the Company had corporate guarantee of HK$3,191,000 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.

47. SUBSEQUENT EVENTS

Loan agreement

On 14 January 2013, the Group repaid one of the loans from First Credit amounted to HK$9,900,000 and entered into a new loan agreement for a loan of HK$6,400,000. The loan is unsecured, bearing an interest rate at 12% per annum and will be due for repayment on 14 April 2014.

48. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2012 were approved for issue by the board of directors on 25 March 2013.

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

	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue/Turnover					
– Continuing operations	**6,789**	16,116	10,505	24	–
– Discontinued operations	**–**	–	375	5,471	15,496
Revenue/Turnover	**6,789**	16,116	10,880	5,495	15,496
Profit/(Loss) before income tax	**2,897**	61,411	(36,407)	20,314	(33,610)
Income tax expense	**(4,938)**	(32,344)	–	–	–
(Loss)/Profit for the year	**(2,041)**	29,067	(36,407)	20,314	(33,610)
Attributable to:					
Owners of the Company	**(12,917)**	(11,410)	(36,407)	20,314	(33,610)
Non-controlling interests	**10,876**	40,477	–	–	–
	(2,041)	29,067	(36,407)	20,314	(33,610)

ASSETS, LIABILITIIES AND EQUITY

	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**1,007,741**	671,309	231,586	41,379	17,833
Total liabilities	**(213,926)**	(171,248)	(13,092)	(30,930)	(78,096)
	793,815	500,061	218,494	10,449	(60,263)
Equity attributable to the owners of the Company	**571,494**	289,356	218,494	10,449	(60,263)
Non-controlling interests	**222,321**	210,705	–	–	–
	793,815	500,061	218,494	10,449	(60,263)