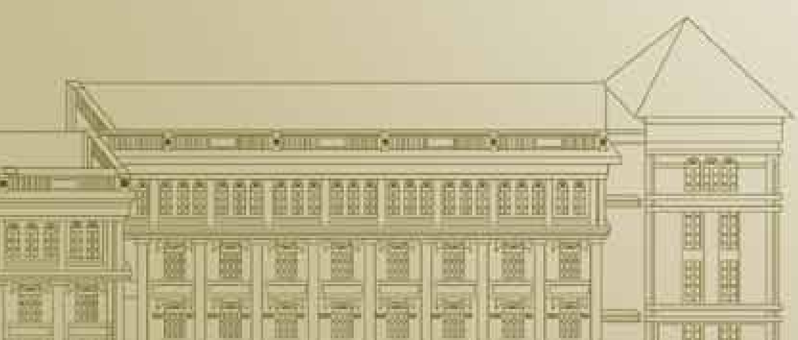
National Arts Entertainment and Culture Group Limited
國藝娛樂文化集團有限公司

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

Stock code : 8228



Annual Report 2013

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

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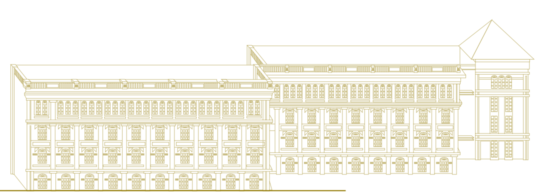


Corporate Information

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
Bermud

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 Entertainment and Culture Group Limited** ("**National Arts**" or the "**Group**"), I am pleased to present the results performance report of the Group for the year ended 31 December 2013.

In 2013, the Group continued to adopt the development strategy of consolidate its culture and entertainment businesses for the sake of becoming an omni-bearing conglomerate in cultural and entertainment business. In the midst of last year, the name of Company changed to National Arts Entertainment and Culture Group Limited to better reflect its core businesses and future development direction.

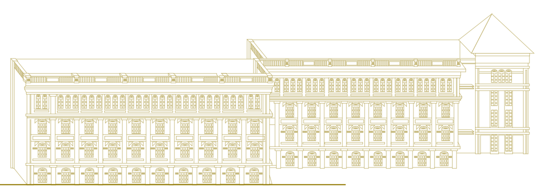
Upon construction of over two years, a number of projects of Xiqiao National Arts Film Studio have been completed and we expect that most of the areas in the studio will be ready to open for tourists by the middle of this year which will generate ticket revenues to the Group. Since the appearance of the Hong Kong Scene Area on "Ip Man – The Final Fight" and on a number of television series, Xiqiao National Arts Film Studio has been receiving compliment from both the industry players as well as from the audience. With the coming grand opening of the street scenes of the film studio, it is expected that the number of tourists will be bolstered and stable and substantial revenue will be brought to the Group.

As of today, the Company has received confirmations from certain film production companies from Hong Kong and the PRC for the lease of Hong Kong Scene Area. A Hollywood film production company conducted an on-the-spot visit to the site and highly commended the scenery and corollary equipment in the film studio. The Group makes every endeavor to develop a first-tier studio in the world with the hope that quality movies and television series would be produced by the industry.

Besides, the Group reached an agreement with a renowned domestic wedding photography chain group in last year to develop wedding photography business. Through which, a number of scenic spots of different styles such as the European, Korean and Japanese styles will be constructed in Xiqiao National Arts Film Studio to let wedding couples to take wedding photos in the scenic spots. We believe that the wedding photography business will facilitate the hotel rooms and catering businesses with the film studio area and bring stable cash flow and visitor flow to the Group.

A five-star hotel in close proximity will commence its operation in the middle of the year to facilitate the grand opening of the file studio at around the same time, while a premium hotel whose construction has been commenced earlier is expected to be officially opened by the fourth quarter of next year. Thereupon there will be over 800 hotel rooms and suites for production crews and tourists. The Group will consider to expand the hotel depending on the visitor flow in the future.

It is one of the important targets of the Group to develop its cinema business. The Group planned and put into operation a cinema in a large shopping mall in a transportation hub area of Zhuhai which boasted 8 screens and offered more than 730 seats in total in last year. The cinema has currently obtained its respective licenses and is expected to commence operation by May of this year. The opening of the cinema shall provide the Group with stable cash flow and act as an important strategic move of the Group to further expand its entertainment and culture business to downstream market. The Group will continue to identify other cities in the PRC to open move cinemas in the future.



Chairman's Statement

As a matter of fact, the movie industry in the PRC has been expanding over the recent years. As the second largest file market in the world currently second to the U.S., China's box office exceeded RMB20 billion in last year. It is forecasted that the box office in the China film market will exceed RMB100 billion in the next decade. With the vigorous support from the government towards the development of film industry, it is foreseen that there will be huge demand for the film studio, cinema and other film production ancillary facilities of the Group.

Last but not least, I would like to express my gratitude to the Board members and the entire workforce for their dedication and contributions. While the last two years were the years where Nation Arts sowing the seeds, the coming years will be the periods where fruitful results are expected. The Group will strengthen its core businesses and watch for, identify and exploit potential business opportunities relating to entertainment business.

Thank you for your support.

Sin Kwok Lam
Chairman

BUSINESS REVIEW

Xiqiao National Arts Film Studio Project

Located in Foshan city, Guangdong province, the Group's Xiqiao National Arts Film Studio project has a total developed land area of 444,000 square metres and is an unique studio which incorporates tourism and recreational facilities such as film shooting area, theme park, hotels, performing arts complex.

It is expected that Xiqiao National Arts Film Studio will open most of its areas to tourists to play visits for tickets to shooting scenic spots in the studio in the middle of 2014, as well as to film production process. The Group expects the studio will become one of the tourist spots in Guangdong province which could attract tourists and provide them with unique experience.

- **Film Shooting Base**

  The film shooting base is the core project of the Xiqiao National Arts Film Studio and equips with the most excellent and comprehensive ancillary facilities featuring most realistic and delicate details in South China. The film shooting base covers 374,000 square metres, including a lake of 120,000 square metres.

  Currently, the major part of the shooting scenic spots has completed and is partly opened to production crews for lease which includes the Hong Kong Scene Area, the Shanghai Scene Area, the Guangzhou Scene Area, the Ancient Residence Area and the Ming-Qing Dynasty Palace. As to the Beijing Old Street, the Water Towns in Southern Yangtze River and the Qing-Ming Festival Riverside Scene, the construction is still undergoing and expected to be completed by the end of this year. The film shooting base can provide diversified and practical scenes for crews from Mainland China and Hong Kong, as well as overseas companies 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.

  The construction of the film studio is expected to be completed in the middle of the year. With the official opening of the film studio, it is believed that it will become one of the important sources of income to the Group and bring substantial gain to the Group as enormous synergistic effect will be created and more tourists will be attracted.

- **Hotels**

  There will be a 5-star hotel and a boutique hotel in the film studio. These hotels have rooms at different prices from deluxe suites to economic standard rooms to cater to tourists' needs. National Arts Resort Hotel will be completed and commence operation by June of this year. Featuring a modern European design style and incorporating Greek colour elements and providing 350 suites, it will be one of the most luxurious and distinctive hotels in the region. The construction of National Arts Boutique Hotel in close proximity has been commenced and it is expected that the hotel which may provide about 400 rooms will officially be put into operation in the fourth quarter of next year.

  The service targets of the two hotels of National Arts are the production crews who lease our shooting scenic spots and the tourists who visit the film studio. With the official opening of the film studio and the domestic demands in the tourism industry, the Group expects that the two hotels will achieve satisfactory occupation rate.

Management Discussion and Analysis

Film Production

The shooting of "Ip Man – The Final Fight", a film which the Group has conceived and produced for a long time, was shown in cinemas in Hong Kong and Mainland China in March of last year and distributed in overseas market. The film was highly rated and was chosen as an opening film of Hong Kong International Film Festival in 2013, and was also selected to compete at the fifteenth Udine Far East Film Festival.

As to the film production segment, the Group makes breakthroughs by adapting "男人唔可以窮", a popular network novel into movie, which is the Group's new attempt of not following its previous path of producing kungfu movies. The inspiring movie is expected to complete its filming and be shown in cinemas in July of this year. The Group is confident that the movie will once again be a successful one just like the previous kungfu movies. Besides, the Group will tap into the television series segment by producing a soap drama called "Sheng Nan Sheng Nv" which is about topics that are in vogue nowadays. The Group will explore more movies and television series with new topics to offer more choices to audience.

Cinema

National Arts Films Production Limited ("NA Films"), a wholly-owned subsidiary of the Company, collaborated with its joint venture for the development of cinema business in a large shopping mall in a transportation hub area of Zhuhai. NA Films will hold 60% equity interest in the joint venture. The cinema will boast eight screens and a total of more than 730 seats, and is expected to commence operation in May of this year which will support more comprehensive development of the Group's entertainment and culture business.

With the increase of the income per capita in Mainland China, the overall box office received by Chinese movies has achieved substantial growth over the past few years. It is expected that the cinema segment will provide the Group with stable income, and that the Group will continue to expand its cinema business in other first-tier and second-tier cities in the PRC.

Artiste Management

Subsequent to the completion and put into operation of the film studio, and with the huge market potential of domestic movies, the Group will recruit more artists with potential in the future to cope with the demands in the vast market. Apart from the films produced by the Group, our artists Marvel Chow, Dennis To and Rose Chan will also perform in different films and TV series. The Group will also identify suitable institutions for them to serve as spokespersons and participate in advertising photography. The Group will continue to recruit artists with potential and expand the artiste management segment, hoping that it will become one of the income sources of the Group.

Wedding Photography

The Group reached an agreement with a renowned domestic wedding photography chain group in the fourth quarter of last year to develop new wedding photography business. Through which, the Group will cooperate with the wedding photography company on film studio area of approximately 20 mu (13,333.33 square metres) for a term of 12 years and the wedding photography company will invest RMB10 million for the construction of scenic spots of different styles such as the European, Korean and Japanese styles and guarantee there will be at least 28,800 couples to take wedding photos in the scenic spots per year. The annual income of this arrangement will be no less than RMB1,152,000.

The wedding photography can provide stable cash flow and visitor flow to the Group, and facilitate the hotel rooms and catering businesses with the film studio area. Furthermore, the Group is discussing with wedding companies such as famous jeweler, bakery, Chinese wedding gown and wedding organization company the plan to set up their branch stores in the film studio so as to provide one-stop services to wedding couples in a comprehensive wedding base.

FUTURE PROSPECT

According to the statistics published by State Administration of Press, Publication, Radio, Film and Television, the box office receipts in Mainland China in 2013 reached RMB217.69 million, representing an increase of 27.51% from the previous year, indicating that the PRC film industry remained at a stage of rapid growth in 2013. This, combining with a series of favourable policies for the tourism and culture industry introduced by central government, 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 foster its development.

As for tourism, according to a statistics published by Tourism Administration of Guangdong Province, the total tourism revenue in Guangdong province was RMB8,305 million in 2013, which was the highest across the PRC and representing an increase of 12.4% from the previous year. The rank of Guangdong province in China in terms of total tourism revenue was again the first this year. With the official opening of Xiqiao National Arts Film Studio in the middle of this year, the Group believes that its new tourist substance and excellent ancillary facilities will become a bright point of the tourism industry in Guangdong province. The Group is confident that the revenue from operations such as filming base, hotels, tickets sales, cinema and wedding photography will bring satisfactory return to the Group.

FINANCIAL REVIEW

Results

During the year under review, the Group reported a turnover of approximately HK$19.1 million, an increase of 181% 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 business of film studio in the PRC. Increase in turnover mainly due to major part of film production and licensing income from "Ip Man – The Final Fight" was recorded during the year.

Cost of film production for the year under review increased approximately by HK$14.0 million as current year's cost mainly represented the film products amortised for the movie "Ip Man – The Final Fight".

Staff costs for the year under review decreased to approximately HK$13.6 million from approximately HK$16.9 million in previous year. A decrease of approximately HK$3.3 million in staff cost was mainly due to no share options granted to directors and employees during the year under review.

Finance costs for the year under review increased by approximately HK$11.1 million mainly due to interest charged on additional borrowings raised and issuances of bonds and convertible bonds 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$26.2 million, which is arising from revaluation of the land and construction of film studio.

For the year ended 31 December 2013, the Group recorded a net loss of approximately HK$24.2 million as compared to net loss of the preceding year of approximately HK$2.0 million. During the year, the Group incurred several non-cash flow expense items, including but not limited to, amortisation of film products and land lease prepayments which are amounting to HK$14.3 million and HK$2.2 million respectively.

Management Discussion and Analysis

Liquidity and Financial Resources

	2013 HK$'000	2012 HK$'000
Current assets	**39,932**	198,546
Current liabilities	**278,246**	163,943
Current ratio	**14.4%**	121.1%

Current ratio as at 31 December 2013 was 14.4% (2012: 121.1%). As at 31 December 2013, the Group's total cash and cash equivalents amounted to approximately HK$8.0 million (2012: HK$157.5 million).

Although the Group had consolidated net current liabilities of approximately HK$238,314,000 (2012: net current assets of approximately HK$34,603,000) and suffered loss of HK$24,225,000 for the year ended 31 December 2013 (2012: HK$2,041,000), the consolidated financial statements have been prepared on going concern basis, by considering (1) the major shareholder, who is also the major convertible bond holder of the Company, has undertaken to provide financial support to the Group to meet its liabilities as they fall due and to maintain the Group as a going concern for the next twelve months; (2) the Group has subsequently obtained debt financing amounting to HK$58,000,000 up to the end of March 2014 from the major shareholder and an independent third party; (3) the management of the Group has been taking active steps to improve working capital of the Group by obtaining further debt or equity financing; and (4) the Group expects its film studio and hotel operations will be fully launched in the latter half of 2014, which will generate positive cash inflows to the Group.

Dividend

The directors do not recommend payment of a final dividend for the year ended 31 December 2013 (2012: Nil).

Issuance of bonds with unlisted warrants and convertible bonds

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

As part of the consideration of the acquisition of remaining equity interests in Head Return Limited ("HRL") and Expand Pacific Limited ("EPL"), the Company issued convertible bonds with an aggregate principal amount of HK$420,000,000 on 2 October 2013. The convertible bonds has a maturity of 3 years from the date of issue and bears coupon interest at 4% per annum, accrued daily and payable annually in arrears.

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 2013, 4,126,270,695 ordinary shares were issued and fully paid.

	2013		2012	
	Amount HK$'000	**Relative %**	Amount HK$'000	Relative %
Loans from a related company	**12,400**	**1%**	13,400	1.6%
Borrowings	**45,000**	**3.7%**	25,000	2.9%
Bonds	**74,182**	**6%**	–	–
Convertible bonds	**367,978**	**30%**	–	–
Finance lease obligation	**17,898**	**1.5%**	17,613	2.1%
Total borrowings	**517,458**	**42.2%**	56,013	6.6%
Equity	**709,418**	**57.8%**	793,815	93.4%
Total capital employed	**1,226,876**	**100%**	849,828	100.0%

The Group's gearing ratio was approximately 42.2% as at 31 December 2013 (2012: 6.6%). If the bonds, convertible bonds (liability component) and finance lease obligation as stated above were to be excluded, the underlying gearing ratio was 4.7% (2012: 4.5%). The increase in the gearing ratio in current year was due to convertible bonds and bonds issued during the year.

Foreign Exchange Exposure

The Group's reporting currency is expressed in Hong Kong dollars. During the reporting period for the year ended 31 December 2013, most of the transactions, assets and liabilities of the Group were denominated in Hong Kong dollars and Renminbi. During the year, 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.

Material Acquisitions or Disposal of Subsidiaries and Affiliated Companies

In March 2011, the Group has obtained 51% equity interests in each of HRL and EPL (together referred as the "Target Companies") and control over the operating and financial policies of Target Companies which became subsidiaries of the Group.

On 28 June 2013, an acquisition agreement was entered into between Glory Max Group Limited ("Glory Max"), a direct wholly owned subsidiary of the Company and Mr. Sin Kwok Lam ("Mr. Sin"). Pursuant to the acquisition agreement, Glory Max agrees to acquire the remaining 49% equity interest in each of Target Companies from Mr. Sin at an aggregate consideration of HK$550,000,000, which is satisfied partly by cash of HK$130,000,000 and partly by the Company's issue of the convertible bonds of HK$420,000,000 to Mr. Sin (the "Acquisition")

The Acquisition was completed on 4 October 2013 and resulted in an increase in equity interests of 49% in the Target Companies, which constituted a change in the Group's ownership interest in a subsidiary that does not result in a change of control.

Management Discussion and Analysis

Capital Commitments

At 31 December 2013, the Group had the following capital commitments:

	2013 **HK$'000**	2012 HK$'000
Contracted but not provided for:		
Construction of properties (note (a))	**32,909**	107,001
Formation of a joint venture (note (b))	**2,400**	11,400
	35,309	118,401
Authorised but not contracted for:		
Construction of properties (note (a))	**158,752**	17,037

Notes:

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

(b) On 17 December 2012, one of the subsidiaries of the Company, NA Films entered into a joint venture agreement (the "JV agreement") with an independent third party to establish a joint venture for the development of cinema business. According to the JV agreement, the registered capital of the joint venture 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 capital of the joint venture to be injected by NA Films, is thus shown as capital commitment of the Group as at 31 December 2012. During the year, the capital of the joint venture of HK$9,000,000 has been injected by NA Film. The remaining capital commitment is therefore HK$2,400,000 as at 31 December 2013.

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.

Events After the Reporting Date

On 24 January 2014, the Group entered into a loan agreement with a director of the Company for a loan of HK$8,000,000. The loan is unsecured, bearing an interest rate at 9% per annum and will be due for repayment on the date falling half calendar year after 24 January 2014.

In February 2014, the Group realised its banking facilities by obtaining the revolving loan and overdraft in the amounts of HK$10,000,000 and HK$8,500,000 respectively. The loan is secured, bearing interest rate of 2.75% per annum over HIBOR, and will be due for repayment on 4 May 2014. The overdraft is secured and bearing interest rate at the higher of 0.75% per annum below Prime Rate or 1% per annum over HIBOR.

On 24 March 2014, the Group entered into a loan agreement with an independent third party for a loan of HK$50,000,000. The loan is secured, bearing interest rates ranged from 9% to 10% per annum and repayable within 12 months from the date of first drawdown.

Contingent Liabilities

At 31 December 2013, the Company had corporate guarantee of HK$12,400,000 (2012: HK$13,400,000) given to a related company to secure loans to NA Entertainment, an indirectly 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 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.

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 RMB600 million for the projects or the Group is liable to pay RMB8 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 out in the leasing agreements could be achieved and no provision for liability is necessary.

Employee and Remuneration Policy

As at 31 December 2013, the Group had a total of 147 (2012: 99) staff based in the PRC and Hong Kong. The Group remunerates its employees based on their performances, experiences and the prevailing industry practices. In addition to basic salaries and mandatory provident fund, staff benefits including medical coverage scheme and share options are offered.

The Group has not experienced any significant problems with its employees or disruption to its operation due to labour disputes nor has it experienced any difficulties in the recruitment and retention of experienced staff. The Directors believe that the Group has a good working relationship with its employees.

Biographical Details of Directors

EXECUTIVE DIRECTORS

Miss Law Po Yee, aged 34, 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 29, 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 29, 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 56, 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 55, 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 chairman of Chinese Strategic Holdings Limited (stock code: 8089); 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 PME Group Limited (stock code: 379), the aforesaid companies are listed on the Main Board of the Exchange.

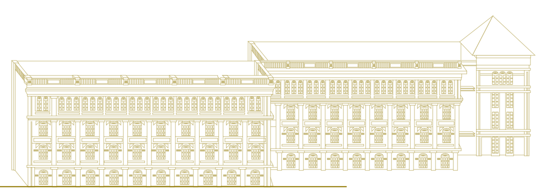
Mr. Li Sin Hung Maxim, aged 43, worked for Cathay Pacific Airways Limited during the period from 1996-1998. After resigned from Cathay Pacific, Mr. Li continued his education in Boston and started food and beverage business and plastic resin trading business in the United States of America. In 2000, Mr. Li returned to Hong Kong and worked in HSBC, Federal Express Pacific Inc. and Midland Holding. Mr. Li is a current holder of Estate Agents Licence (Individual) and as a Certified Paralegal in Institute of Paralegals. 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 54, was born in Hong Kong and has been in the legal field for over 20 years. He received his legal education in England where he was awarded the Postgraduate Diploma in Laws (the Legal Practice Course) from the University of Wolverhampton after he had obtained the law degree from the University of London. 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 57, 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 Road Safety Campaign Committee of the Road Safety Council. He is also a director of a number of private companies and association.

Prof. Patrick Wong Lung Tak, BBS, JP, aged 66, 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.



Directors' Report

The board of directors (the "Board") has pleasure in presenting the directors' report together with the audited financial statements of National Arts Entertainment and Culture Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2013.

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 2013 are set out in the consolidated statement of comprehensive income on pages 34 to 35.

No dividend was paid during the year. The Board does not recommend the payment of a dividend for the year ended 31 December 2013 (2012: 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 124.

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 14 and note 15, respectively, to the consolidated financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 17 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.

DISTRIBUTABLE RESERVES

As at 31 December 2013, the Company has approximately HK$16 million reserves available for distribution to shareholders (2012: approximately HK$42 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 13 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 2013, the interests and short positions of the Directors and chief executive of the Company and their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part X V 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 X V 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	23.66%
	Interest of spouse	33,360,000	–	33,360,000	0.81%
Miss Law Po Yee (Note 1)	Beneficial owner	33,360,000	–	33,360,000	0.81%
	Interest of spouse	976,390,000	–	976,390,000	23.66%

Note 1: Mr. Sin and Miss Law beneficially owned 1,009,750,000 Shares, representing approximately 24.47% of the issued share capital of the Company. By virtue of SFO, Miss Law, the spouse of Mr. Sin, was deemed to be interested in all the Shares in which Mr. Sin was interested.

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

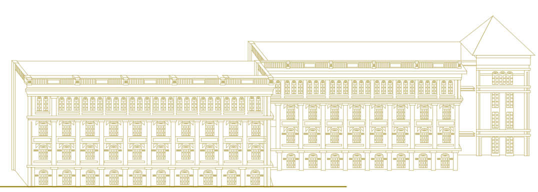
2. Rights to acquire shares in the Company

i. Post-IPO Share Option Scheme

Details of grantees	Date of grant	Exercise price per share* (HK$)	Exercisable period	Number of share options* As at 1 January 2013	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2013
Mr. Sin Kwok Lam (Director)	29 September 2010	0.30	29 September 2010 to 2 September 2020	76,800,000	–	–	–	76,800,000
Miss Law Po Yee (Director)	29 September 2010	0.30	29 September 2010 to 2 September 2020	38,400,000	–	–	–	38,400,000
Mr. Lam Kwok Hing Wilfred (Director)	13 May 2010	0.38	13 May 2010 to 12 May 2020	2,407,894	–	–	–	2,407,894
	29 September 2010	0.30	29 September 2010 to 2 September 2020	5,200,000	–	–	–	5,200,000
Mr. Chow Kai Weng (Director)	29 September 2010	0.30	29 September 2010 to 2 September 2020	240,000	–	–	–	240,000
Mr. Li Sin Hung Maxim (Director)	20 May 2010	0.35	20 May 2010 to 19 May 2020	241,714	–	–	–	241,714
Mr. Chui Chi Yun, Robert (Director)	13 May 2010	0.38	13 May 2010 to 12 May 2020	321,053	–	–	–	321,053
Mr. Chan Tin Lup, Trevor (Director)	20 May 2010	0.35	20 May 2010 to 19 May 2020	322,286	–	–	–	322,286
Prof. Wong Lung Tak, Patrick (Director)	20 May 2010	0.35	20 May 2010 to 19 May 2020	322,286	–	–	–	322,286

ii. New Share Option Scheme

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



Save as disclosed above, none of the Directors, Chief Executive or their associates had, as at 31 December 2013, 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 X V of the SFO) which would have to be notified to the Company and the Exchange pursuant to Divisions 7 and 8 of Part X V 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.

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

As at 31 December 2013, the persons or corporations, other than a director or chief executive of the Company, who had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of Part X V 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	19.51%

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

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

Post-IPO Share Option Scheme

As at 31 December 2013, the share options to subscribe for an aggregate of 124,255,233 shares of the Company granted pursuant to the Post-IPO Share Option Scheme were outstanding. The details of the Post-IPO Share Option Scheme as at 31 December 2013 are set out as follows:

Category of Participants	Exercise price per share* (HK$)	Date of grant	Number of share options*: As at 1 January 2013	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2013
Directors	0.38	13 May 2010	2,728,947	–	–	–	2,728,947
Directors	0.35	20 May 2010	886,286	–	–	–	886,286
Directors	0.30	29 September 2010	120,640,000	–	–	–	120,640,000
Total			124,255,233	–	–	–	124,255,233

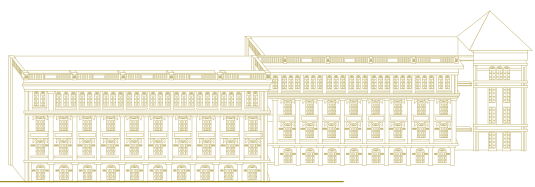
New Share Option Scheme

As at 31 December 2013, the share options to subscribe for an aggregate of 104,022,000 shares of the Company granted pursuant to the New Share Option Scheme were outstanding. The details of the New Share Option Scheme as at 31 December 2013 are set out as follows:

Category of Participants	Exercise price per share* (HK$)	Date of grant	Number of share options*: As at 1 January 2013	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2013
Directors	0.79	28 March 2011	97,539,240	–	–	–	97,539,240
Directors	0.58	31 March 2012	6,482,760	–	–	–	6,482,760
Total			104,022,000	–	–	–	104,022,000

DIRECTORS' 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$217,000 (2012: HK$494,000).

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

Other than convertible bonds amounting to HK$44,940,000 which were early redeemed during the year, 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 2013.

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 81% of the Group's turnover for the year. The Group's largest customer accounted for approximately 74% of its turnover.

The five largest suppliers of the Group accounted for approximately 38% of the Group's purchases for the year. The Group's largest supplier accounted for approximately 15% 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 2013. Please refer to the Corporate Governance Report on pages 24 to 31 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 2013.

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 2013.

Please refer to the Corporate Governance Report on pages 24 to 31 for details.

AUDITOR

The consolidated financial statements of the Group for the year ended 31 December 2013 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, 26 March 2014

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 2013.

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 they all Directors of the Company and the Directors have confirmed that standard have complied with the required year ended dealings set out in the Code of Conduct throughout the year ended 31 December 2013.

BOARD OF DIRECTORS

The Company has a balanced Board composition of Executive and Non-executive Directors. During the year ended 31 December 2013, 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.

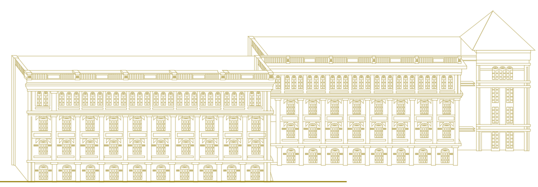
To the best knowledge of the Board, there is no financial, business and family relationship among the members of the Board except that Miss Law Po Yee is Mr. Sin Kwok Lam's spouse, and Miss Sin Ho Yee is the daughter of Mr. Sin Kwok Lam.

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 2013, 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	3/4	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 2013 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 2013 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 2013 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 2013, 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 32 to 33 of this annual report.

AUDITOR'S REMUNERATION

During the year ended 31 December 2013, 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	610
Non-audit services rendered	400

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 2013.

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 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.

Independent Auditor's Report

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Hong Kong

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香港干諾道中111號
永安中心25樓

To the shareholders of National Arts Entertainment and Culture Group Limited (formerly known as 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 Entertainment and Culture Group Limited (formerly known as National Arts Holdings Limited) ("the Company") and its subsidiaries (together "the Group") set out on pages 34 to 123, which comprise the consolidated and company statements of financial position as at 31 December 2013, 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.

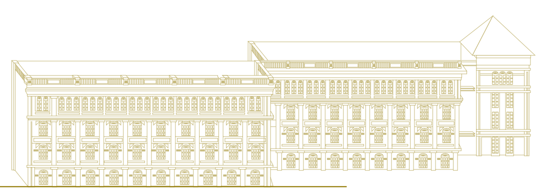
OPINION

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 2013 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 Yin Fan
Practising Certificate Number P03113

Hong Kong, 26 March 2014



Consolidated Statement of Comprehensive Income

For the year ended 31 December 2013

	Notes	**2013 HK$'000**	2012 HK$'000
Revenue/Turnover	5	**19,094**	6,789
Other income	5	**5,336**	41,048
Cost of film production		**(14,350)**	(311)
Staff costs	12	**(13,612)**	(16,904)
Depreciation of property, plant and equipment	14	**(1,974)**	(1,915)
Amortisation of land lease prepayments	16	**(2,245)**	(2,257)
Impairment of goodwill	18	**–**	(8,974)
Other operating expenses		**(16,484)**	(12,979)
Finance costs	7	**(20,692)**	(9,550)
Change in fair value of investment properties	15	**26,173**	7,950
Gain on disposals of subsidiaries	42	**1,520**	–
Share of loss of a joint venture	19	**(448)**	–
(Loss)/Profit before income tax	8	**(17,682)**	2,897
Income tax expense	9	**(6,543)**	(4,938)
Loss for the year		**(24,225)**	(2,041)
Other comprehensive income			
Item that will not be reclassified to profit or loss:			
Gain on revaluation of properties held for own use		**339,409**	–
Income tax relating to gain on revaluation of properties held for own use		**(84,853)**	–
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**9,338**	1,519
Other comprehensive income for the year, net of tax		**263,894**	1,519
Total comprehensive income for the year		**239,669**	(522)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Loss for the year attributable to:			
Owners of the Company	10	**(20,614)**	(12,917)
Non-controlling interests		**(3,611)**	10,876
		(24,225)	(2,041)
Total comprehensive income for the year attributable to:			
Owners of the Company		**240,384**	(12,138)
Non-controlling interests		**(715)**	11,616
		239,669	(522)
Loss per share for loss attributable to the owners of the Company during the year	11		
Basic and diluted		**(HK0.51 cents)**	(HK0.96 cents)

Consolidated Statement of Financial Position

As at 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	14	**663,539**	112,920
Investment properties	15	**676,576**	513,426
Land lease prepayments	16	**82,507**	84,752
Goodwill	18	**–**	–
Interests in a joint venture	19	**8,552**	–
Other receivables	24	**100,947**	98,097
		1,532,121	809,195
Current assets			
Film products	20	**7,388**	–
Film production in progress	21	**8,005**	19,398
Trade receivables	22	**3,683**	1,162
Inventories	23	**1,164**	1,126
Prepayments, deposits and other receivables	24	**11,685**	19,343
Cash and cash equivalents	25	**8,007**	157,517
		39,932	198,546
Current liabilities			
Trade payables	26	**45**	79
Other payables and accruals	27	**216,454**	119,401
Amount due to a director	28	**–**	1,151
Loans from a related company	29	**12,400**	13,400
Borrowings	31	**45,000**	25,000
Finance lease obligation	32	**1,396**	1,961
Provision for income tax		**2,951**	2,951
		278,246	163,943
Net current (liabilities)/assets		**(238,314)**	34,603
Total assets less current liabilities		**1,293,807**	843,798

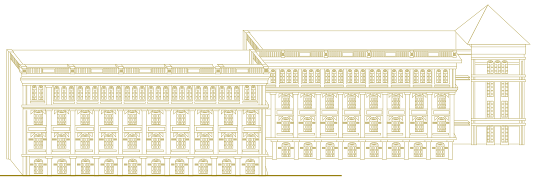
Consolidated Statement of Financial Position

As at 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Non-current liabilities			
Bonds	33	**74,182**	–
Convertible bonds	34	**367,978**	–
Finance lease obligation	32	**16,502**	15,652
Deferred tax liabilities	35	**125,727**	34,331
		584,389	49,983
Net assets		**709,418**	793,815
EQUITY			
Equity attributable to the owners of the Company			
Share capital	36	**41,262**	40,562
Reserves	37	**668,156**	530,932
		709,418	571,494
Non-controlling interests		**–**	222,321
Total equity		**709,418**	793,815

Director
Law Po Yee

Director
Sin Kwok Lam



Statement of Financial Position

As at 31 December 2013

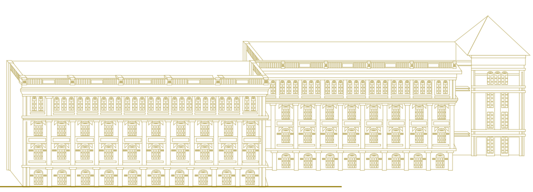
	Notes	2013 HK$'000	2012 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	14	**102**	139
Interests in subsidiaries	17	**882**	10
		984	149
Current assets			
Prepayments, deposits and other receivables	24	**718**	589
Amounts due from subsidiaries	30	**1,110,501**	446,015
Cash and cash equivalents	25	**1,341**	103,257
		1,112,560	549,861
Current liabilities			
Other payables and accruals	27	**3,042**	1,861
Amounts due to subsidiaries	30	**349**	2,279
Borrowings	31	**45,000**	25,000
		48,391	29,140
Net current assets		**1,064,169**	520,721
Total assets less current liabilities		**1,065,153**	520,870
Non-current liabilities			
Bonds	33	**74,182**	–
Convertible bonds	34	**367,978**	–
		442,160	–
Net assets		**622,993**	520,870
EQUITY			
Share capital	36	**41,262**	40,562
Reserves	37	**581,731**	480,308
Total equity		**622,993**	520,870

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	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 (b))	100	3,300	–	–	–	–	–	–	3,400	–	3,400
Shares issued under rights issue (note 36 (a))	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



Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	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)	Properties revaluation reserve HK$'000	Translation reserve HK$'000	Share option reserve HK$'000	Convertible bond equity reserve HK$'000	Warrant reserve HK$'000	Retained earnings/ (Accumulated losses) HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2013	40,562	412,074*	1,000*	78,791*	–*	1,777*	26,229*	–*	–*	11,061*	571,494	222,321	793,815
Issue of convertible bonds (note 34)	–	–	–	–	–	–	–	128,518	–	–	128,518	–	128,518
Transaction costs of equity component of convertible bonds (note 34)	–	–	–	–	–	–	–	(500)	–	–	(500)	–	(500)
Shares issued upon conversion of convertible bonds (note 36 (c))	700	7,319	–	–	–	–	–	(654)	–	–	7,365	–	7,365
Redemption of convertible bonds (note 34)	–	–	–	–	–	–	–	(12,898)	–	–	(12,898)	–	(12,898)
Issue of warrants (note 33)	–	–	–	–	–	–	–	–	6,831	–	6,831	–	6,831
Transaction costs of issuance of warrants (note 33)	–	–	–	–	–	–	–	–	(432)	–	(432)	–	(432)
Acquisition of non-controlling interests (note 44)	–	–	–	–	–	–	–	–	–	(231,083)	(231,083)	(221,606)	(452,689)
Shares issue expenses	–	(261)	–	–	–	–	–	–	–	–	(261)	–	(261)
Transactions with owners	700	7,058	–	–	–	–	–	114,466	6,399	(231,083)	(102,460)	(221,606)	(324,066)
Loss for the year	–	–	–	–	–	–	–	–	–	(20,614)	(20,614)	(3,611)	(24,225)
Other comprehensive income													
Gain on revaluation of properties held for own use, net of tax	–	–	–	–	254,556	–	–	–	–	–	254,556	–	254,556
Exchange differences on translation of financial statements of foreign operations	–	–	–	–	–	6,442	–	–	–	–	6,442	2,896	9,338
Total comprehensive income for the year	–	–	–	–	254,556	6,442	–	–	–	(20,614)	240,384	(715)	239,669
At 31 December 2013	41,262	419,132*	1,000*	78,791*	254,556*	8,219*	26,229*	114,466*	6,399*	(240,636)*	709,418	–	709,418

* The aggregate amount of these balances of HK$668,156,000 (2012: HK$530,932,000) in surplus is included as reserves in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Cash flows from operating activities			
(Loss)/Profit before income tax		**(17,682)**	2,897
Adjustments for:			
Finance costs		**20,692**	9,550
Bank interest income		**(332)**	(13)
Interest income on financial assets stated at amortised cost		**–**	(5,407)
Dividend income		**–**	(313)
Amortisation of film products		**14,327**	–
Amortisation of land lease prepayments		**2,245**	2,257
Depreciation of property, plant and equipment		**1,974**	1,915
Impairment of goodwill		**–**	8,974
Change in fair value of investment properties		**(26,173)**	(7,950)
Gain of 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	**(1,520)**	–
Gain on early redemption of convertible bonds		**(1,395)**	(224)
Construction management fee income		**–**	(29,245)
Equity settled share-based payment expenses		**–**	5,303
Share of loss of a joint venture		**448**	–
Operating cash flows before movements in working capital		**(7,416)**	(18,045)
Increase in inventories		**(38)**	(15)
Increase in film products and film production in progress		**(10,322)**	(15,308)
(Increase)/Decrease in trade receivables		**(2,521)**	5,820
Decrease in prepayments, deposits and other receivables		**7,847**	4,770
Receipt of financial assets at fair value through profit or loss		**–**	13,472
Decrease in trade payables		**(36)**	(257)
Decrease in other payables and accruals	42	**(73,984)**	(3,688)
Net cash used in operating activities		**(86,470)**	(13,251)

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Cash flows from investing activities			
Interest received		**332**	13
Dividend received		**–**	313
Acquisition of a subsidiary, net of cash acquired	43	**(11,774)**	–
Purchases of property, plant and equipment		**(4,508)**	(2,979)
Additions of construction in progress	42	**(77,266)**	(36,380)
Additions of investment properties	42	**(65,459)**	(44,626)
Investment in a joint venture		**(9,000)**	–
Proceeds from disposals of property, plant and equipment		**–**	11,994
Net cash used in investing activities		**(167,675)**	(71,665)
Cash flows from financing activities			
Interest paid		**(5,573)**	(7,355)
Acquisition of non-controlling interests, including transaction costs	44	**(132,644)**	–
Loans from a director		**109,000**	–
Repayment to a director		**–**	(3,031)
Receipts of short-term borrowings		**20,000**	60,000
Repayments of short-term borrowings		**–**	(38,191)
Loans from a related company		**12,400**	13,400
Repayments of loans from a related company		**(13,400)**	–
Repayment of finance lease obligation		**–**	(64)
Repayment of convertible bonds		**(44,940)**	(121,500)
Proceeds from shares issued under rights issue		**–**	324,502
Proceeds from shares issued upon exercise of bonus warrants		**–**	3,400
Proceeds from issuance of bonds		**78,775**	–
Transaction costs of issuance of bonds		**(4,977)**	–
Proceeds from issuance of convertible bonds		**92,000**	–
Transaction costs of issuance of convertible bonds		**(5,770)**	–
Shares issue expenses		**(261)**	(10,219)
Net cash generated from financing activities		**104,610**	220,942
(Decrease)/Increase in cash and cash equivalents		**(149,535)**	136,026
Cash and cash equivalents at 1 January		**157,517**	21,327
Effect of foreign exchange rate changes		**25**	164
Cash and cash equivalents at 31 December	25	**8,007**	157,517

1. GENERAL INFORMATION

National Arts Entertainment and Culture Group Limited (formerly known as 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.

Pursuant to the special resolution passed on 14 May 2013, the name of the Company was changed from "National Arts Holdings Limited" (國藝控股有限公司) to "National Arts Entertainment and Culture Group Limited" (國藝娛樂文化集團有限公司) with effect from 21 June 2013.

The Company's shares are listed on The Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company is principally engaged in investment holding. Details of the principal activities of its subsidiaries are set out in note 17 to the consolidated financial statements. The Company and its subsidiaries are referred to as the Group hereafter.

The consolidated financial statements on pages 34 to 123 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collectively includes all applicable individual Hong Kong Financial Reporting Standard ("HKFRS"), Hong Kong Accounting Standard ("HKAS") and Interpretation ("Int") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The consolidated financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

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

2. ADOPTION OF NEW OR AMENDED HKFRSs

(a) Adoption of new/revised HKFRSs – effective 1 January 2013

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 2013:

HKFRSs (Amendments)	Annual Improvements 2009-2011 Cycle
HKFRSs (Amendments)	Annual Improvements 2010-2012 Cycle
HKFRSs (Amendments)	Annual Improvements 2011-2013 Cycle
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income
Amendments to HKFRS 7	Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 27 (2011)	Separate Financial Statements
HKAS 28 (2011)	Investments in Associates and Joint Ventures
HKAS 19 (2011)	Employee Benefits

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.

HKFRSs (Amendments) – Annual Improvements 2009-2011 Cycle

HKAS 1 has been amended to clarify that an opening statement of financial position is required only when a retrospective application of an accounting policy, a retrospective restatement or reclassification has a material effect on the information presented in the opening position. Further, this opening statement of financial position does not have to be accompanied by comparative information in the related notes. This is consistent with the Group's existing accounting policy.

HKFRSs (Amendments) – Annual Improvements 2010-2012 Cycle

The Basis of Conclusions for HKFRS 13 Fair Value Measurement was amended to clarify that short-term receivables and payables with no stated interest rate can be measured at their invoice amounts without discounting, if the effect of discounting is immaterial. This is consistent with the Group's existing accounting policy.

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

(a) Adoption of new/revised HKFRSs – effective 1 January 2013 *(Continued)*

Amendments to HKAS1 (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 and those that may not. Tax on items of other comprehensive income is allocated and disclosed on the same basis.

The Group has adopted the amendments retrospectively for the financial year ended 31 December 2013. Items of other comprehensive income that may and may not be reclassified to profit and loss in the future have been presented separately in the consolidated statement of profit or loss and other comprehensive income. The comparative information has been restated to comply with the amendments. As the amendments affect presentation only, there are no effects on the Group's financial position or performance.

Amendments to HKFRS 7 – Offsetting Financial Assets and Financial Liabilities

HKFRS 7 is amended to introduce disclosures for all recognised financial instruments that are set off under HKAS 32 and those that are subject to an enforceable master netting agreement or similar arrangement, irrespective of whether they are set off under HKAS 32.

The adoption of the amendments has no impact on these financial statements as the Group has not offset financial instruments, nor has it entered into a master netting agreement or a similar arrangement.

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 accounting requirements in HKAS 27 (2008) on other consolidation related matters are carried forward unchanged. The Group has changed its accounting policy in determining whether it has control of an investee and therefore is required to consolidate that interest (see note 3.3).

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

(a) Adoption of new/revised HKFRSs – effective 1 January 2013 *(Continued)*

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, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). HKFRS 11 does not allow proportionate consolidation of a joint venture arrangement. 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. The Group has changed its accounting policy for joint arrangements (see note 3.4).

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 12 affects only disclosure, there is no effect on the Group's financial position and performance. This standard has no material impact on the Group'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 is applied prospectively.

HKFRS 13 did not materially affect any fair value measurements of the Group's assets and liabilities and therefore has no effect on the Group's financial position and performance. The standard requires additional disclosures about fair value measurements and these are included in notes 14 and 15. Comparative disclosures have not been presented in accordance with the transitional provisions of the standard.

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

(a) Adoption of new/revised HKFRSs – effective 1 January 2013 *(Continued)*

HKAS 19 (2011) – Employee Benefits

HKAS 19 (2011) abandons the corridor approach with the result that changes in defined benefit obligations and the fair value of plan assets are recognised in the period in which they occur. The revised standard requires the changes in the Group's net defined benefit liability (or asset) to be separated into three components: service cost (including current and past service cost and settlements) recognised in profit or loss; net interest on the net defined benefit liability recognised in profit or loss; and re-measurements of the defined benefit liability (or asset) recognised in other comprehensive income. The revised standard distinguishes between short-term and long-term employee benefits based on the expected date of settlement. The previous standard used the term "due to be settled". HKAS 19 (2011) provides additional guidance on the definition of termination benefits. Benefits that are conditional on future service being provided including those that increase if additional service is provided are not termination benefits. The revised standard requires that a liability for termination benefits is recognised on the earlier of the date when the entity can no longer withdraw the offer of those benefits and the date the entity recognises any related restructuring costs.

The Group has amended its accounting policies for short-term employee benefits and termination benefits, however the adoption of the revised standard has no effect on the Group's financial position or performance.

(b) New/revised HKFRSs that have been issued but are not yet effective

At the date of approval of these financial statements, certain new/revised HKFRSs have been published but are not yet effective, and have not been adopted early by the Group for the year ended 31 December 2013.

HKFRSs (Amendments)	Annual Improvements 2010-2012 Cycle[3]
HKFRSs (Amendments)	Annual Improvements 2011-2013 Cycle[2]
HKFRS 9	Financial Instruments
Amendments to HKFRS 9, HKFRS 7 and HKAS 39	Hedge Accounting
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment entities[1]
Amendments to HKAS 19 (2011)	Defined Benefit Plans: Employee Contributions[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets[1]
Amendments to HKAS 39	Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting[1]
HK (IFRIC) 21	Levies[1]

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

(b) New/revised HKFRSs that have been issued but are not yet effective *(Continued)*

Notes:

[1] Effective for annual periods beginning on or after 1 January 2014

[2] Effective for annual periods beginning on or after 1 July 2014

[3] Effective for annual periods beginning, or transactions occurring, on or after 1 July 2014

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.

Amendments to HKAS 32 – Offsetting Financial Assets and Financial Liabilities

The amendments clarify the offsetting requirements by adding appliance guidance to HKAS 32 which clarifies when an entity "currently has a legally enforceable right to set off" and when a gross settlement mechanism is considered equivalent to net settlement.

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 derecognition of financial assets and financial liabilities.

Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle

The amendments issued under the annual improvements process make small, non-urgent charges to a number of standards where they are currently unclear. Among them HKAS 16 Property, Plant and Equipment has been amended to clarify how the gross carrying amount and accumulated depreciation are treated where an entity uses the revaluation model. The carrying amount of the asset is restated to revalued amount. The accumulated depreciation may be eliminated against the gross carrying amount of the asset. Alternatively, the gross carrying amount may be adjusted in a manner consistent with the revaluation of the carrying amount of the asset and the accumulated depreciation is adjusted to equal the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The Group is in the process of making an assessment of the potential impact of these new/revised 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/revised HKFRSs will have no material impact on the Group's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

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

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

The consolidated financial statements have been prepared on a going concern basis which assumes the realisation of assets and satisfaction of liabilities in the ordinary course of business notwithstanding that the Group had consolidated net current liabilities of approximately HK$238,314,000 (2012: net current assets of approximately HK$34,603,000) and suffered loss of HK$24,225,000 for the year ended 31 December 2013 (2012: HK$2,041,000). The going concern basis has been adopted on the basis that (1) the major shareholder, who is also the major convertible bond holder of the Company, has undertaken to provide financial support to the Group to meet its liabilities as they fall due and to maintain the Group as a going concern for the next twelve months; (2) the Group has subsequently obtained debt financing amounting to HK$58,000,000 up to the end of March 2014 from the major shareholder and an independent third party (note 48); (3) the management of the Group has been taking active steps to improve working capital of the Group by obtaining further debt or equity financing; and (4) the Group expects its film studio and hotel operations will be fully launched in the latter half of 2014, which will generate positive cash inflows to the Group.

Should the going concern basis be inappropriate, adjustments would have to be made to the financial statements to write down the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities to current assets and current liabilities respectively. These adjustments have not yet been reflected in the financial statements.

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.

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.

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

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

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

A subsidiary is an investee over which the Group is able to exercise control. The Group controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable at the reporting date.

3.4 Joint arrangements

The Group is a party to a joint arrangement where there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the Group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries.

The Group classifies its interests in joint arrangements as either:

- *Joint ventures:* where the Group has rights to only the net assets of the joint arrangement; or
- *Joint operations:* where the Group has both the rights to assets and obligations for the liabilities of the joint arrangement.

In assessing the classification of interests in joint arrangements, the Group considers:

- The structure of the joint arrangement;
- The legal form of joint arrangements structured through a separate vehicle;
- The contractual terms of the joint arrangement agreement; and
- Any other facts and circumstances (including any other contractual arrangements).

Interests in joint ventures are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the joint ventures' net assets except that losses in excess of the Group's interest in the joint venture are not recognised unless there is an obligation to make good those losses.

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

3.4 Joint arrangements *(Continued)*

Any premium paid for an investment in a joint venture above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the investment in joint venture. Where there is objective evidence that the investment in a joint venture has been impaired the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

The Group accounts for its interests joint operations by recognising its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations.

3.5 Goodwill

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. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

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

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

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

3.6 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.

3.7 Revenue recognition

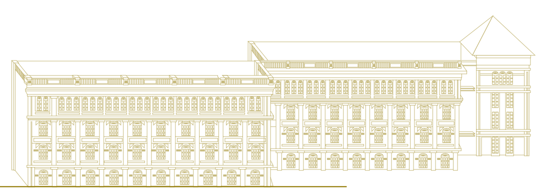
Revenue is recognised when it is probable that the economic benefits will flow to the Group and when revenue and costs, if applicable, can be measured reliably on the following bases:

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.



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

3.7 Revenue recognition *(Continued)*

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.

3.8 Property, plant and equipment

Property, plant and equipment, other than 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.

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.

Construction in progress ("CIP") other than hotel constructions 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.

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

3.8 Property, plant and equipment *(Continued)*

CIP in relation to hotel constructions are stated at valuation less accumulated depreciation. Revaluations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period.

Increases in value arising on revaluation are recognised in other comprehensive income and accumulated in equity under the heading of properties revaluation reserve. Decreases in value arising on revaluation are first offset against increases on earlier valuations in respect of the same property and thereafter recognised in profit or loss. Any subsequent increases are recognised in profit or loss up to the amount previously charged and thereafter to the properties revaluation reserve.

Upon disposal, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the properties revaluation reserve to retained earnings.

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

– Interests in subsidiaries and investment in a joint venture

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

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

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.

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

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

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

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

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

3.12 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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 loans and receivables.

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

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

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

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

Loans and receivables

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

Impairment of financial assets

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

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

– significant financial difficulty of the debtor;

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

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

3.14 Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

– 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.

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

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

3.15 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.

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.

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

3.16 Accounting for income taxes *(Continued)*

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.

3.17 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.

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

3.18 Share capital and share premium *(Continued)*

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 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

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

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.

Termination benefits

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

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

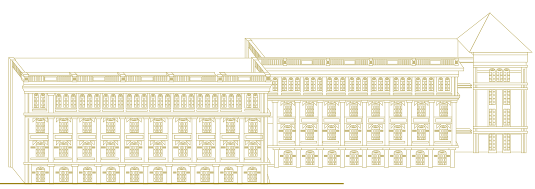
Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs (see note 3.22).

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)*

Bonds and warrants

Bonds are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost.

Warrants that are contractually transferable independently of the bonds and entitle the holder to acquire a fixed number of the Company's own equity instruments for a fixed amount of cash are equity instruments. The proceeds (net of transaction costs) allocated to the warrants are recognised in the warrant reserve in equity.

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 (together with the early redemption option which is closely related to the host liability component) and conversion option components are classified separately into respective liability and equity components on initial recognition in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate for similar non-convertible debts (with early redemption option). The difference between the gross proceeds of the issue of the convertible bonds and the fair value assigned to the liability component is allocated to the conversion option that meets the definition of an equity instrument, and is included in equity as convertible bonds equity reserve.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible bonds equity reserve until the embedded option is exercised or expired.

When the option is exercised, the convertible bonds equity reserve and the carrying value of the liability component at the time of conversion, are transferred to share capital and share premium as consideration for the shares issued. Where the option remains unexercised at the expiry date, the balance stated in convertible bonds equity reserve will be released to the retained earnings/ accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

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

3.21 Financial liabilities *(Continued)*

Convertible bonds contain liability and equity components *(Continued)*

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

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.

3.23 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.

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

3.23 Provisions and contingent liabilities *(Continued)*

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.

(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).

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

3.24 Related parties *(Continued)*

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.

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:

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.

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

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 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 appraised. 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.

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

Fair value measurement

A number of assets and liabilities included in the Group's consolidated financial statements require measurement at, or disclosure of, fair value.

The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

- Level 1: Quoted prices in active markets for identical items (unadjusted);
- Level 2: Observable direct or indirect inputs other than Level 1 inputs;
- Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

The Group measures a number of items at fair value:

- Construction in progress – hotel constructions (note 14);
- Investment properties (note 15);

Estimation of fair value of construction in progress (hotel constructions)

The Group estimates the fair value of hotel constructions according to a direct comparison method by assuming sales transactions as available in the relevant market (i.e. sales transaction price per hotel room) and taking into account the costs that will be expended to complete the constructions. These calculations require significant adjustments for differences in the location and condition of the Group's hotel constructions and estimates of future construction costs to complete the constructions.

Estimation of fair value of investment properties

The principle assumptions for the Group's estimation of the fair value of investment properties include current transaction prices of similar land in the market, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices. For the buildings under construction on the land, the Group estimates the fair value based on current cost of replacement of the buildings, less allowance for physical deterioration and all relevant forms of obsolescence and optimisation.

For more detailed information in relation to the fair value measurement of the items above, please refer to notes 14 and 15.

5. REVENUE/TURNOVER AND OTHER INCOME

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

	2013 HK$'000	2012 HK$'000
Revenue/Turnover		
Artiste management fee income	**1,663**	2,016
Entrance fee income	**1,250**	1,991
Films production and licensing income	**14,236**	1,274
Rental income	**1,279**	596
Sales of goods	**666**	912
	19,094	6,789
Other income		
Bank interest income	**332**	13
Construction management fee income	**–**	29,245
Dividend income from financial assets at fair value through profit or loss	**–**	313
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 early redemption of convertible bonds (note 34)	**1,395**	224
Interest income on financial assets stated at amortised cost	**–**	5,407
Others	**3,609**	57
	5,336	41,048

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

6. SEGMENT INFORMATION *(Continued)*

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 2013					
Revenue from external customers	15,899	2,941	254	–	19,094
Inter-segment revenue	–	–	490	(490)	–
Reportable segment revenue	15,899	2,941	744	(490)	19,094
Reportable segment (loss)/profit	(541)	20,729	(11,621)	–	8,567
Other income					320
Gain on early redemption of convertible bonds					1,395
Gain on disposals of subsidiaries					1,520
Unallocated corporate expenses					(8,792)
Finance costs					(20,692)
Loss before income tax					(17,682)

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$'000	Inter-segment elimination HK$'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 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					2,897

Revenue reported above represents revenue generated from external customers and inter-segment sales during both years.

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 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 2013				
Reportable segment assets	**33,372**	**784,949**	**732,391**	**1,550,712**
Property, plant and equipment				**18,457**
Cash and cash equivalents				**1,557**
Unallocated corporate assets				**1,327**
Consolidated assets				**1,572,053**
Reportable segment liabilities	**(1,154)**	**(106,222)**	**(123,994)**	**(231,370)**
Loans from a related company				**(12,400)**
Borrowings				**(45,000)**
Bonds				**(74,182)**
Convertible bonds				**(367,978)**
Deferred tax liabilities				**(125,727)**
Provision for income tax				**(2,951)**
Unallocated corporate liabilities				**(3,027)**
Consolidated liabilities				**(862,635)**
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)

6. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

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

- all assets are allocated to reportable segments other than corporate assets; and
- all liabilities are allocated to reportable segments other than corporate liabilities.

Other segment information

	Films production and distribution and artiste management HK$'000	Film studio operation HK$'000	Hotel operation HK$'000	Total HK$'000
Year ended 31 December 2013				
Depreciation of property, plant and equipment	**58**	**345**	**753**	**1,156**
Amortisation of land lease prepayments	**–**	**–**	**2,245**	**2,245**
Amortisation of film products	**14,327**	**–**	**–**	**14,327**
Change in fair value of investment properties	**–**	**(26,173)**	**–**	**(26,173)**
Additions to non-current assets	**–**	**137,620**	**190,197**	**327,817**
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

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$14,108,000 (2012: HK$1,074,000) which arose from film products distribution from the Group's largest customer.

7. FINANCE COSTS

	2013 **HK$'000**	2012 HK$'000
Finance lease charges	**1,978**	1,984
Interest on bank overdrafts	**–**	104
Interest on bonds	**6,783**	–
Interest on convertible bonds	**20,523**	9,924
Interest on other borrowings wholly repayable within five years	**4,087**	3,057
Interest on secured bank borrowings wholly repayable within five years	**–**	13
	33,371	15,082
Less: Amount capitalised in construction in progress	**(12,679)**	(5,532)
	20,692	9,550

The weighted average capitalisation rate of borrowings was 11.81% (2012: 10.91%) per annum for the year.

8. (LOSS)/PROFIT BEFORE INCOME TAX

	2013 **HK$'000**	2012 HK$'000
(Loss)/Profit before income tax is arrived at after charging:		
Amortisation of film products*	**14,327**	–
Amortisation of land lease prepayments	**2,245**	2,257
Auditor's remuneration	**610**	575
Costs of inventories recognised as expenses	**247**	440
Depreciation of property, plant and equipment	**1,974**	1,915
Impairment of goodwill	**–**	8,974
Minimum lease payments under operating leases in respect of rented premises	**2,689**	3,852

* Included in cost of film production

9. INCOME TAX EXPENSE

	2013 HK$'000	2012 HK$'000
Current tax – the PRC income tax	–	2,951
Deferred tax (note 35)	6,543	1,987
	6,543	4,938

Hong Kong profits tax is calculated at 16.5% (2012: 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 ended 31 December 2012 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 (loss)/profit at applicable tax rates is as follows:

	2013 HK$'000	2012 HK$'000
(Loss)/Profit before income tax	(17,682)	2,897
Tax at the applicable tax rate of 16.5%	(2,918)	478
Tax effect of different tax rates of subsidiaries	1,218	(469)
Tax effect of non-deductible expenses	6,147	3,635
Tax effect of non-taxable revenue	(2,948)	(4,662)
Tax effect of unrecognised tax losses	5,064	5,967
Tax effect of temporary difference not recognised	(20)	(11)
Income tax expense	6,543	4,938

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

The consolidated loss attributable to the owners of the Company for the year of approximately HK$20,614,000 (2012: HK$12,917,000) includes a loss of HK$26,500,000 (2012: HK$46,597,000) which has been dealt with in the financial statements of the Company.

11. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to the owners of the Company of approximately HK$20,614,000 (2012: HK$12,917,000) and the weighted average of approximately 4,058,152,000 (2012: 1,344,789,000) ordinary shares in issue during the year. Diluted loss per share for loss attributable to the owners of the Company for the year ended 31 December 2013 and 2012 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. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	2013 **HK$'000**	2012 HK$'000
Salaries and allowances	**13,395**	11,107
Equity settled share-based payment expenses	**–**	5,303
Retirement benefit costs	**217**	494
	13,612	16,904

13. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

13.1 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 2013					
Executive directors					
Ms. Law Po Yee	**–**	**610**	**–**	**15**	**625**
Ms. Sin Ho Yee	**–**	**137**	**–**	**7**	**144**
Mr. Chow Kai Weng	**–**	**445**	**–**	**15**	**460**
Non-executive directors					
Mr. Sin Kwok Lam	**–**	**1,485**	**–**	**15**	**1,500**
Mr. Lam Kwok Hing, Wilfred	**50**	**–**	**–**	**–**	**50**
Mr. Li Sin Hung, Maxim	**30**	**–**	**–**	**–**	**30**
Independent non-executive directors					
Mr. Chan Tin Lup, Trevor	**50**	**–**	**–**	**–**	**50**
Mr. Chiu Chi Yun, Robert	**50**	**–**	**–**	**–**	**50**
Prof. Wong Lung Tak, Patrick	**50**	**–**	**–**	**–**	**50**
	230	**2,677**	**–**	**52**	**2,959**

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

13.1 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 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

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2013 and 2012.

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

13.2 Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2012: five) directors whose emoluments are reflected in the analysis presented in note 13.1 above. The emoluments payable to the remaining two individual during the year ended 31 December 2013 are as follows:

	2013 **HK$'000**
Salaries and allowances	**1,210**
Retirement benefit costs	**30**
	1,240

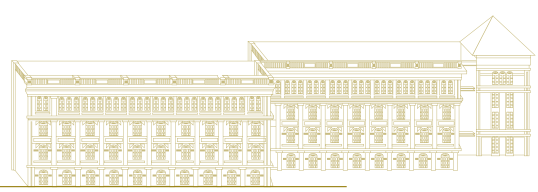
The emoluments were within the following band:

	Number of individual 2013
NIL to HK$1,000,000	**2**

During the year, no emoluments were paid by the Group to the directors or the two (2012: nil) 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	
	2013	2012
NIL to HK$1,000,000	**8**	7
HK$1,000,001 to HK$1,500,000	**1**	–
HK$2,000,001 to HK$2,500,000	**–**	1
HK$2,500,001 to HK$3,000,000	**–**	1



14. 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 (hotel constructions) HK$'000	Total HK$'000
At 1 January 2012						
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
Year ended 31 December 2013						
Opening net book amount	14,698	141	2,757	2,076	93,248	112,920
Acquisition of a subsidiary (note 43)	11,778	–	–	–	–	11,778
Additions	3,592	20	743	153	196,051	200,559
Surplus on valuation	–	–	–	–	339,409	339,409
Depreciation	(814)	(21)	(689)	(450)	–	(1,974)
Exchange realignment	275	6	77	32	457	847
Closing net book amount	**29,529**	**146**	**2,888**	**1,811**	**629,165**	**663,539**
At 31 December 2013						
Cost or valuation	30,889	1,711	4,413	3,154	629,165	669,332
Accumulated depreciation	(1,360)	(1,565)	(1,525)	(1,343)	–	(5,793)
Net book amount	**29,529**	**146**	**2,888**	**1,811**	**629,165**	**663,539**
Comprising:						
At cost	29,529	146	2,888	1,811	–	34,374
At valuation	–	–	–	–	629,165	629,165
Net book amount	**29,529**	**146**	**2,888**	**1,811**	**629,165**	**663,539**

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

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

	2013 HK$'000	2012 HK$'000
Land in Hong Kong under medium-term leases	**17,629**	6,279
Land in the PRC under medium-term leases	**11,900**	8,419
	29,529	14,698

On 3 October 2013, the Group decided the change its accounting policy of its construction in progress, representing the hotel constructions of the Group to be held for own use, from cost model to revaluation model, in order for better reflection of the commercial value of hotel constructions in the consolidated financial statements of the Group. The effect of the change is prospective and the Group's construction in progress was valued on 31 December 2013 by an independent qualified professional valuer, RHL Appraisal Limited ("RHL"). The revaluation surplus (approximately HK$339,409,000) net of applicable deferred income taxes (approximately HK$84,853,000) was credited to properties revaluation reserve in the amount of approximately HK$254,556,000. If the construction in progress had not been revalued, it would have been included in the consolidated financial statements at historical cost of approximately HK$289,756,000 as at 31 December 2013.

The fair value of the Group's construction in progress is a level 3 fair value measurement. The reconciliation of the opening and closing balances of the construction in progress is stated in the above table.

The fair value measurement of the Group's construction in progress was estimated based on a direct comparison method by assuming sales transactions as available in the relevant market (i.e. sales transaction price per hotel room) and taking into account the costs that will be expended to complete the constructions, with significant adjustments for differences in the location and condition of the Group's construction in progress. These adjustments are based on unobservable inputs.

Significant unobservable inputs	Range/Amount	Sensitivity
Premiums/(discounts) on quality of properties	-26% to 36%	The higher the premiums or discounts, the higher or lower the fair values
Projected construction costs to complete the constructions	RMB142,002,000	The higher the projected construction costs, the lower the fair values

The fair value measurement is based on the highest and best use of the construction in progress, which does not differ from their actual use.

Certain of the Group's leasehold land and buildings which had an aggregate net book amount at 31 December 2013 of approximately HK$17,629,000 (2012: HK$6,279,000) were pledged to obtain banking facility for overdrafts.

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.

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

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 in 2012.

The Company

	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2012			
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
Year ended 31 December 2013			
Opening net book amount	139	–	139
Additions	24	–	24
Depreciation	(61)	–	(61)
Closing net book amount	**102**	**–**	**102**
At 31 December 2013			
Cost	311	200	511
Accumulated depreciation	(209)	(200)	(409)
Net book amount	**102**	**–**	**102**

15. INVESTMENT PROPERTIES

The Group

The Group's property interests held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment properties.

	2013 HK$'000	2012 HK$'000
Fair value		
At 1 January	**513,426**	440,775
Additions	**134,932**	64,701
Change in fair value	**26,173**	7,950
Exchange realignment	**2,045**	–
At 31 December	**676,576**	513,426
Change in unrealised gains or losses on revaluation of investment properties for the year included in profit or loss	**26,173**	7,950

The fair value of the Group's investment properties at 31 December 2013 and 31 December 2012 have been arrived at market value basis carried out by RHL, an independent qualified professional 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 fair value of the Group's investment properties is a level 3 recurring fair value measurement. The reconciliation of the opening and closing fair value balances is stated in the above table.

The fair value measurement of the Group's investment properties was estimated by using the valuation approaches as follows:

Elements	**Valuation approach**
Land	Market approach (based on the comparable accommodation value per sq. ft. observed from the market)
Buildings	Depreciated replacement costs approach (based on current cost of replacement of the improvements, less allowance for physical deterioration and all relevant forms of obsolescence and optimisation)

Significant unobservable inputs used in the fair value measurement of the Group's investment properties are as follows:

Significant unobservable inputs	**Range/Amount**	**Sensitivity**
Discounts on quality of properties	-2% to-9%	The higher the discounts, the lower the fair values
Replacement costs of constructions on the land	RMB199,915,000	The higher the costs of constructions, the higher the fair values

The fair value measurement is based on the investment properties' highest and best use, which does not differ from their actual use. There was no change to the valuation techniques during the year.

16. LAND LEASE PREPAYMENTS

The Group

	HK$'000
At 1 January 2012	
Cost	98,478
Accumulated amortisation	(5,719)
Net book amount	92,759
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
Year ended 31 December 2013	
Opening net book amount	84,752
Amortisation	(2,245)
Closing net book amount	**82,507**
At 31 December 2013	
Cost	92,579
Accumulated amortisation	(10,072)
Net book amount	**82,507**

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

17. INTERESTS IN SUBSIDIARIES

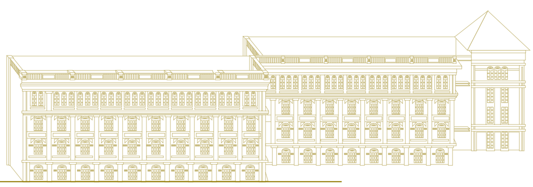
The Company

	2013 **HK$'000**	2012 HK$'000
Unlisted shares, at cost	**26,429**	25,557
Less: Provision for impairment	**(25,547)**	(25,547)
	882	10

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 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. No impairment loss has been identified during the year ended 31 December 2013.

Particulars of the Company's principal subsidiaries at 31 December 2013 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		Place of operation and principal activities
			Directly	Indirectly	
National Arts Entertainment Limited ("NA Entertainment")	Hong Kong	Ordinary HK$1,500,000	–	100%	Provision of management services to artistes in Hong Kong
National Arts Entertainment Holdings Limited	British Virgin Islands	Ordinary US$192,308	100%	–	Investment holding in Hong Kong
National Arts Advertising & Promotions Limited	Hong Kong	Ordinary HK$1	–	100%	Provision of promotional performance services in Hong Kong
National Arts Films Production Limited ("NA Films")	Hong Kong	Ordinary HK$1,500,000	–	100%	Production and distribution of film in Hong Kong
Art Tour Limited	Hong Kong	Ordinary HK$10,000	100%	–	Property investment in Hong Kong



17. 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		Place of operation and Principal activities
			Directly	Indirectly	
Glory Max Group Limited	British Virgin Islands	Ordinary US$1	100%	–	Investment holding in Hong Kong
Head Return Limited	Hong Kong	Ordinary HK$100	–	100% (2012: 51%)	Investment holding in Hong Kong
Expand Pacific Limited	Hong Kong	Ordinary HK$100	–	100% (2012: 51%)	Investment holding in Hong Kong
佛山市匯星酒店有限公司	PRC	Registered US$22,061,370	–	100% (2012: 51%)	Hotel operation in the PRC
佛山市匯首景區開發有限公司	PRC	Registered US$24,042,902	–	100% (2012: 51%)	Property development and operation of film studio and theme park in the PRC
佛山市御品軒商貿有限公司	PRC	Registered RMB100,000	–	100% (2012: 51%)	Retailing of souvenirs in the PRC
Broad Sky Investment Limited*	Hong Kong	Ordinary HK$20	100%	–	Property investment in Hong Kong
National Arts Film Shooting Base Management Company Limited*	Hong Kong	Ordinary HK$10,000	–	100%	Inactive

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.

* Newly acquired/incorporated during the year

18. 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:

	2013 **HK$'000**	2012 HK$'000
At 1 January		
Gross carrying amount	**20,456**	20,456
Accumulated impairment losses	**(20,456)**	(11,482)
Net carrying amount	**–**	8,974
At 1 January		
Net carrying amount	**–**	8,974
Impairment loss	**–**	(8,974)
Net carrying amount at 31 December	**–**	–
At 31 December		
Gross carrying amount	**–**	20,456
Accumulated impairment losses	**–**	(20,456)
Net carrying amount	**–**	–

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:

18. 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 has been recognised during the year ended 31 December 2012. As at 31 December 2013, the gross amount of goodwill and its full provision for impairment loss have been written off from the consolidated statement of financial position of the Group.

19. INTERESTS IN A JOINT VENTURE

The Group

	2013 **HK$'000**	2012 HK$'000
Unlisted investment, at cost	**9,000**	–
Share of post-acquisition loss and other comprehensive income	**(448)**	–
	8,552	–

Details of the Group's joint venture at the end of the reporting date are as follows:

Name of entity	Place of incorporation and operation	Registered capital	Proportion of ownership interest and voting rights held by the Group	Principal activities
珠海市國藝影院經營管理有限公司	The PRC	Registered HK$19,000,000	60%	Cinema operation

19. INTERESTS IN A JOINT VENTURE *(Continued)*

The aggregate amounts relating to the joint venture that have been included in the Group's consolidated financial statements as extracted from relating financial statements of the joint venture are set out below.

	2013 **HK$'000**	2012 HK$'000
As at 31 December		
Current assets	**710**	–
Non-current assets	**8,192**	–
Current liabilities	**(472)**	–
Non-current liabilities	**–**	–
Included in the above amounts are:		
Construction in progress	**8,171**	–
Year ended 31 December		
The Group's share of:–		
Revenue	**–**	–
Profit or loss for the year	**(448)**	–
Other comprehensive income	**–**	–
Total comprehensive income	**(448)**	–
Included in the above amounts are:		
Interest income	**2**	–

20. FILM PRODUCTS

The Group

	HK$'000
Cost:	
At 1 January 2012 and 1 January 2013	65,634
Transfer from film production in progress (note 21)	21,715
At 31 December 2013	**87,349**
Accumulated amortisation and impairment losses:	
At 1 January 2012 and 1 January 2013	65,634
Provided during the year	14,327
At 31 December 2013	**79,961**
Net book amount:	
At 31 December 2013	**7,388**
At 31 December 2012	–

20. FILM PRODUCTS *(Continued)*

There was no movement for the film products during the year ended 31 December 2012. The carrying amount of the film products of the Group as at 31 December 2013 represented the film "Ip Man – The Final Fight" (the "Film 1") as mentioned in note 21 below.

21. FILM PRODUCTION IN PROGRESS

The Group

	2013	2012
	HK$'000	HK$'000
At 1 January	**19,398**	4,090
Additions	**10,322**	15,308
Transfer to film products (note 20)	**(21,715)**	–
At 31 December	**8,005**	19,398

In July 2012, NA Films has signed a cooperation agreement (the "Agreement 1") with an independent third party (the "Party A") for joint investment of the film "Ip Man – The Final Fight" (the "Film 1"). According to the Agreement, the Film 1 is jointly owned b y NA Films and the Party A and the interests of the Film 1 will be shared by NA Films and the Party A 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 1 which had been incurred. As at 31 December 2013, the production costs of the Film 1 have been transferred to film products (note 20).

In July 2013, NA Films has signed a cooperation agreement (the "Agreement 2") with an independent third party (the "Party B") for joint investment of the film "男人不可以窮" (the "Film 2"). According to the Agreement 2, the interests of the Film 2 will be owned and shared by NA Films and the Party B in 25% and 75% respectively. As at 31 December 2013, included in film production in progress in amount of approximately HK$2,685,000 represented the investment that contributed from NA Films to the Film 2 up to the reporting date.

22. TRADE RECEIVABLES

The Group

	2013 HK$'000	2012 HK$'000
Trade receivables	**3,683**	1,162

The Group generally allows a credit period from 30 to 90 days (2012: 30 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:

	2013 HK$'000	2012 HK$'000
0 to 60 days	**3,228**	804
61 to 90 days	**73**	100
91 to 180 days	**382**	250
Over 180 days	**–**	8
	3,683	1,162

At 31 December 2013, trade receivables of HK$3,301,000 (2012: HK$904,000) 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$382,000 (2012: HK$258,000) 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:

	2013 HK$'000	2012 HK$'000
1 - 90 days past due	**382**	250
Over 90 days past due	**–**	8
	382	258

23. INVENTORIES

The Group

	2013 **HK$'000**	2012 HK$'000
Merchandise	**1,164**	1,126

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The Group and The Company

	The Group		**The Company**	
	2013 **HK$'000**	2012 HK$'000	**2013** **HK$'000**	2012 HK$'000
Non-current assets				
Other receivables (note)	**100,947**	98,097	**–**	–
Current assets				
Prepayments	**4,893**	5,552	**494**	372
Rental deposits	**2,297**	2,165	**–**	–
Other deposits	**851**	1,247	**–**	–
Other receivables	**3,644**	10,379	**224**	217
	11,685	19,343	**718**	589
	112,632	117,440	**718**	589

Note: During the year ended 31 December 2012, certain of the Group's construction in progress, land lease prepayments 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 RMB74,700,000 (approximately HK$92,690,000) in accordance with the construction management agreement signed on 29 February 2012. Construction management fee income amounted to approximately HK$29,245,000 was recognised in profit or loss in 2012.

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. As at 31 December 2013, the consideration amount and corresponding interest receivable amounted to approximately HK$100,947,000 (2012: HK$98,097,000) were recognised as other receivables under non-current assets. The directors of the Company are of the opinion that the carrying amount of this balance is approximate to its fair value.

25. CASH AND CASH EQUIVALENTS

The Group and The Company

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and cash equivalents	**8,007**	157,517	**1,341**	103,257

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.

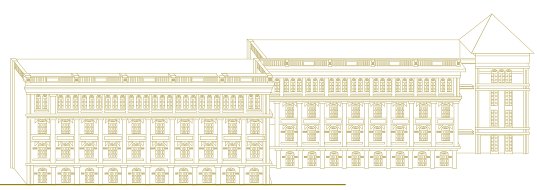
At 31 December 2013, included in cash and cash equivalents of the Group was HK$1,195,000 (2012: HK$829,000) of bank balances denominated in RMB placed with banks in the PRC and on hands. RMB is not freely convertible into foreign currencies. Under the PRC's Foreign Exchange Control Regulations and Administration 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.

26. TRADE PAYABLES

The Group

The Group was granted by its suppliers' credit periods from 30 to 60 days (2012: 30 to 60 days). The following is the ageing analysis of trade payables at the reporting date:

	2013	2012
	HK$'000	HK$'000
0 to 30 days	**–**	12
31 to 60 days	**–**	17
61 to 90 days	**3**	1
91 to 180 days	**1**	20
Over 180 days	**41**	29
	45	79



27. OTHER PAYABLES AND ACCRUALS

The Group and The Company

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accruals	**5,005**	2,715	**1,109**	1,156
Receipts in advance	**964**	1,121	**–**	–
Other payables (note)	**210,485**	115,565	**1,933**	705
	216,454	119,401	**3,042**	1,861

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

28. AMOUNT DUE TO A DIRECTOR

The Group

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

29. LOANS FROM A RELATED COMPANY

The Group

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 the rates ranging from 10% to 12% (2012: 12%) per annum, repayable within one year and are secured by a corporate guarantee granted by the Company (note 47).

30. AMOUNTS DUE FROM/(TO) SUBSIDIARIES

The Company

	2013	2012
	HK$'000	HK$'000
Amounts due from subsidiaries	**1,173,251**	587,128
Less: Provision for impairment	**(62,750)**	(141,113)
	1,110,501	446,015

During the year ended 31 December 2013, 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$Nil (2012: HK$27,150,000) has been identified and recognised in profit or loss of the Company during the year.

The amounts due from/(to) subsidiaries are unsecured, interest-free and repayable on demand.

31. BORROWINGS

The Group and The Company

Current liabilities	The Group 2013 HK$'000	The Group 2012 HK$'000	The Company 2013 HK$'000	The Company 2012 HK$'000
Other borrowings – unsecured	**45,000**	25,000	**45,000**	25,000

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

32. FINANCE LEASE OBLIGATION

The Group

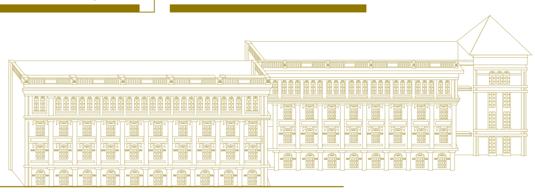
Future finance lease payments arising from the leasing of investment properties are due as follows:

	Minimum lease payment 2013 HK$'000	Interest 2013 HK$'000	Present value 2013 HK$'000
Not later than one year	**3,412**	**2,016**	**1,396**
Later than one year but not later than five years	**8,192**	**8,017**	**175**
Later than five years	**63,491**	**47,164**	**16,327**
	75,095	**57,197**	**17,898**

	2012 HK$'000	2012 HK$'000	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

The present values of future lease payments are analysed as:

	2013 HK$'000	2012 HK$'000
Current liabilities	**1,396**	1,961
Non-current liabilities	**16,502**	15,652
	17,898	17,613



33. BONDS

The Group and The Company

On 23 May 2013, the Company issued the bonds with an aggregate principal amount of HK$78,775,000 (the "Bonds") at par value in accordance with the conditional placing and underwriting agreement dated 16 April 2013 entered into between the Company and an independent placing agent. The Bonds have a maturity of 2 years from the date of issue and bear coupon interest at 7.5% per annum, accrued daily and payable annually in arrears. A default rate of 12% per annum will be charged on any sum due and payable under the Bonds from the due date to the date of actual payment in full. The Bonds were denominated in HK$.

In addition, same amount of unlisted warrants (the "Warrants") were issued (for no additional payment) to the bondholders who are entitled to subscribe in aggregate up to HK$78,775,000 for the warrant shares at the subscription price of HK$0.115 per warrant share within 2 years from the date of issue of the Warrants. The Warrants are detachable from the Bonds and the Warrants and the Bonds can be transferred separately in whole or in part in minimum amount of HK$575,000 or intergral multiples thereof.

The Company may redeem the Bonds (and the Warrants) in whole or in part (in minimum amount of HK$575,000 or intergral multiples thereof), at the principal amount together with interests accrued up to the date of redemption at anytime before maturity. The directors of the Company considered this early redemption option is closely related to the host instrument.

On initial recognition, the fair value of the Bonds was calculated by discounting future repayments at an estimated discount rate of 12.68%. The transaction costs incurred for issuing the Bonds and Warrants were allocated in proportion to the allocation of the gross proceeds in the amounts of approximately HK$4,545,000 and HK$432,000 respectively. Subsequently, interest expense on the Bonds was calculated using the effective interest method by applying an effective interest rate of 16.57% after taking account of transaction costs. The proceeds allocated to the Warrants and recognised in the warrant reserve in equity were approximately HK$6,831,000.

The movement for the period on the Bonds was as follows:

	HK$'000
Fair value of liability components on initial recognition	71,944
Transaction cost allocated to the liability component	(4,545)
Interest expense (note 7)	6,783
At 31 December 2013	**74,182**

34. CONVERTIBLE BONDS

The Group and The Company

CB1 and CB2

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") which have maturities of 3 and 6 years respectively, with the coupon rate of 1% per annum and conversion price of HK$1.1 per share. Both CB1 and CB2 were denominated in HK$ and 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 Chairman and a non executive director of the Company.

On 20 December 2012, the Company has early redeemed the CB1 and CB2 by cash at HK$121,500,000. A gain on redemption of convertible bonds of approximately HK$224,000 which represented the difference between the redemption price allocated to liability components of the CB1 and CB2 amounted to approximately HK$92,790,000 and the total carrying amounts of the liability components of the CB1 and CB2 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 the CB1 and CB2, the difference of approximately HK$34,044,000 between the carrying amounts of equity components of the CB1 and CB2 included in convertible bonds equity reserve of approximately HK$62,754,000 and the redemption price allocated to equity components of the CB1 and CB2 amounted to approximately HK$28,710,000 was released to accumulated losses/retained earnings. Both CB1 and CB2 were valued at the redemption date by an independent professional valuer. The fair values of the liability components were calculated using discounted rate method. The fair values of the equity components were estimated using Binomial Model.

CB3

On 23 May 2013, the Company issued convertible bonds with an aggregate principal amount of HK$92,000,000 ("CB3") at par value in accordance with the conditional placing and underwriting agreement dated 16 April 2013 entered into between the Company and an independent placing agent. The CB3 has a maturity of 2 years from the date of issue and bears coupon interest at 7.5% per annum, accrued daily and payable annually in arrears. A default rate of 12% per annum will be charged on any sum due and payable under the CB3 from the due date to the date of actual payment in full. The CB3 was denominated in HK$.

The conversion price of the CB3, subject to the anti-dilution usual adjustments, is HK$0.115 per conversion share. The outstanding principal amount of the CB3 can be converted in whole or any part (in minimum amount of HK$575,000 or an integral multiple thereof) into conversion shares from the date of issue of the CB3 up to and including the date falling on the 7th day immediately prior to the maturity date.

The Company may redeem the CB3 in whole or in part (in minimum amount of HK$575,000 or intergral multiples thereof), at the principal amount together with interests accrued up to the date of redemption at anytime before maturity. The directors of the Company considered this early redemption option is closely related to the host liability component and is not accounted for separately. CB3 therefore contains liability and equity components.

34. CONVERTIBLE BONDS *(Continued)*

CB3 *(Continued)*

The fair value of the liability component of the CB3 was estimated at the issuance date using an equivalent market interest rate for a similar bond with call option. The residual amount (being the difference between the net proceeds of issuance of the CB3 and the fair value of the liability component) is assigned as the equity component and is included in equity heading convertible bond equity reserve. The liability component is subsequently measured at amortised cost.

On initial recognition, the fair value of the liability component of the CB3 was calculated using future repayments discounted at an estimated discount rate of 12.68%. The transaction costs incurred for the issuance of the CB3 were allocated into the liability component and the equity component of approximately HK$5,270,000 and HK$500,000 respectively in proportion to the allocation of the gross proceeds. Subsequently, interest expense on the CB3 is calculated using the effective interest method by applying effective interest rate of 16.53%. On initial recognition, the amount of equity component of CB3 was approximately HK$7,978,000.

In October and November 2013, CB3 with aggregate principal amounts of HK$8,050,000 were converted into 70,000,000 ordinary shares of the Company in total at a conversion price of HK$0.115 each. As at 31 December 2013, the outstanding principal amount of the CB3 is HK$83,950,000.

CB4

As part of the consideration of the acquisition of remaining equity interests in HRL and EPL as detailed in note 44, the Company issued convertible bonds with an aggregate principal amount of HK$420,000,000 ("CB4") on 2 October 2013. The CB4 has a maturity of 3 years from the date of issue and bears coupon interest at 4% per annum, accrued daily and payable annually in arrears. A default rate of 8% per annum will be charged on any sum due and payable under the CB4 from the due date to the date of actual payment in full. The CB4 was denominated in HK$.

The conversion price of the CB4, subject to the anti-dilution usual adjustments, is HK$0.112 per conversion share. The outstanding principal amount of the CB4 can be converted in whole or any part (in minimum amount of HK$420,000 or an integral multiple thereof) into conversion shares from the date of issue of the CB4 up to and including the date falling on the 7th day immediately prior to the maturity date.

The holder of the CB4 shall be entitled to request the Company to pay interest to it (wholly or partly) by way of allotment and issuance of new shares of the Company at the conversion price on the due day of the interest payment in lieu of payment by cash. Such interest conversion arrangement is only applicable to the 4% per annum interest payment and is not applicable to the 8% default interest payment. The Company may redeem the CB4 at any time prior to the maturity date in whole or any part (in minimum amount of HK$420,000 or an integral multiple thereof) at the principal amount of such CB4 thereof plus interest accrued thereon up to the actual date of redemption.

34. CONVERTIBLE BONDS *(Continued)*

CB4 *(Continued)*

The CB4 has been valued at the issuance date by Roma Appraisal Limited, an independent qualified professional valuer. The directors of the Company considered the interest conversion option due to interest conversion arrangement embedded in the CB4 meets the definition of equity instruments of the Company, and therefore is classified as equity and presented separately from the liability components of the CB4. The directors of the Company also considered the early redemption option embedded in the CB4 is closely related to the host liability component and therefore is not accounted for separately. Accordingly, CB4 contains liability and equity components.

The fair value of the liability component of the CB4 was estimated at the issuance date using an equivalent market interest rate for a similar bond with call option. The residual amount (being the difference between the fair value of the CB4 at issuance date and the fair value of the liability component on initial recognition) is assigned as the equity component and is included in equity heading convertible bond equity reserve. The liability component is subsequently measured at amortised cost.

On initial recognition, the fair value of the liability component of the CB4 was calculated using future repayments discounted at an estimated discount rate of 15.63%. Subsequently, interest expense on the CB4 is calculated using the effective interest method by applying effective interest rate of 16.47%. On initial recognition, the amount of equity component of CB4 was approximately HK$120,540,000.

In October and November 2013, the Company has early redeemed the CB4 with aggregate principal amounts of approximately HK$44,940,000 by cash at approximately HK$45,091,000 (being the principal amount of approximately HK$44,940,000 and accrued interests of approximately HK$151,000). A gain on redemption of the CB4 of approximately HK$1,395,000, which represented the difference between the redemption price allocated to liability component of the CB4 and the carrying amount of the liability component of the CB4 at the redemption date, has been credited to the consolidated statement of comprehensive income for the year ended 31 December 2013. The CB4 was valued at the redemption date by Roma, an independent qualified professional valuer. The fair values of the liability component and the equity component of the redeemed CB4 at redemption date were derived by means of the same method used at issuance date.

34. CONVERTIBLE BONDS *(Continued)*

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

	CB1 and CB2 HK$'000	CB3 HK$'000	CB4 HK$'000	Total HK$'000
At 1 January 2012	85,287	–	–	85,287
Effective interest expense (note 7)	9,924	–	–	9,924
Interest paid	(2,197)	–	–	(2,197)
Early redemption during the year	(93,014)	–	–	(93,014)
At 31 December 2012 and 1 January 2013	–	–	–	–
Fair value of liability components on initial recognition	–	84,022	309,656	393,678
Transaction cost allocated to the liability component	–	(5,270)	–	(5,270)
Effective interest expense (note 7)	–	7,909	12,614	20,523
Converted into ordinary shares	–	(7,365)	–	(7,365)
Early redemption during the year	–	–	(33,588)	(33,588)
Liability components at 31 December 2013	**–**	**79,296**	**288,682**	**367,978**

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$'000	Revaluation of poperties HK$'000	Total HK$'000
At 1 January 2012	32,344	–	32,344
Charged to profit or loss for the year	1,987	–	1,987
At 31 December 2012 and 1 January 2013	34,331	–	34,331
Charged to profit or loss for the year	6,543	–	6,543
Charged to property revaluation reserve	–	84,853	84,853
At 31 December 2013	**40,874**	**84,853**	**125,727**

The Group and The Company

At the reporting date, the Group and the Company had unused estimated tax losses of approximately HK$167,374,000 (2012: HK$177,797,000) and approximately HK$31,607,000 (2012: HK$33,228,000) 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	
	2013	2012	**2013**	2012
	'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	**4,056,270**	801,254	**40,562**	8,012
Shares issued under rights issue (note (a))	**–**	3,245,016	**–**	32,450
Shares issued under bonus warrants (note (b))	**–**	10,000	**–**	100
Shares issued upon conversion of convertible bonds (note (c))	**70,000**	–	**700**	–
At 31 December	**4,126,270**	4,056,270	**41,262**	40,562

Notes:

(a) 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.

36. SHARE CAPITAL *(Continued)*

Notes: (Continued)

(b) 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.

During the year and before the Rights Issue (note 36(a)), 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.

(c) During the year, a total of 70,000,000 ordinary shares of the Company of HK$0.01 each were issued upon conversion of the CB3 (note 34). In October and November 2013, CB3 with aggregate principal amounts of HK$8,050,000 were converted into 70,000,000 ordinary shares of the Company in total at a conversion price of HK$0.115 each, resulting in an increase in share capital and share premium of the Group of approximately HK$700,000 and HK$7,319,000 respectively.

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 39 and 40 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$'000	Warrant reserve HK$'000	Contributed surplus HK$'000	Share options reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 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 and 1 January 2013	412,074	(25)	–	–	76,471	26,229	(34,441)	480,308
Issue of convertible bonds (note 34)	–	–	128,518	–	–	–	–	128,518
Transaction costs of equity component of convertible bonds (note 34)	–	–	(500)	–	–	–	–	(500)
Shares issued upon conversion of convertible bonds	7,319	–	(654)	–	–	–	–	6,665
Redemption of convertible bonds (note 34)	–	–	(12,898)	–	–	–	–	(12,898)
Issue of warrants (note 33)	–	–	–	6,831	–	–	–	6,831
Transaction costs of issuance of warrants (note 33)	–	–	–	(432)	–	–	–	(432)
Shares issue expenses	(261)	–	–	–	–	–	–	(261)
Loss for the year	–	–	–	–	–	–	(26,500)	(26,500)
At 31 December 2013	419,132	(25)	114,466	6,399	76,471	26,229	(60,941)	581,731

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:

	2013 **HK$'000**	2012 HK$'000
Within one year	**2,721**	3,711
In the second to fifth year inclusive	**8,741**	14,169
Over five years	**62,461**	111,128
	73,923	129,008

The HRL Group leased three pieces of land located near Xiqiao mountain in Foshan, the PRC, under operating leases of 20 years commencing from 3 October 2010 and renewable for another 20 years automatically. One piece of land had been leased since 2010 and recognised as finance lease obligation in 2011 as disclosed in note 32. One piece of land had been leased since 2011 and terminated during the year ended 31 December 2013. The Group also leased a property under operating leases which are run for an initial period of five years. None of these leases include contingent rentals.

The Company

At 31 December 2013, the Company had no significant operating lease commitments (2012:Nil).

39. CAPITAL COMMITMENTS

The Group

At 31 December 2013, the Group had the following capital commitments:

	2013	2012
	HK$'000	HK$'000
Contracted but not provided for:		
Construction of properties (note (a))	**32,909**	107,001
Formation of a joint venture (note (b))	**2,400**	11,400
	35,309	118,401
Authorised but not contracted for:		
Construction of properties (note (a))	**158,752**	17,037

Notes:

(a) Capital commitment for construction in properties related to capital commitment for construction of film studio and hotel in Foshan, the PRC. The authorised amount was approved by the directors of the Company according to the land lease agreements signed between the Group and the local authority in Foshan, the PRC, in relation to the leasing of lands for development of tourism and related entertainment business and hotel operations as disclosed in note 47.

(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 joint venture for the development of cinema business. According to the JV agreement, the registered capital of the joint venture 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 capital of the joint venture to be injected by NA Films, is thus shown as capital commitment of the Group as at 31 December 2012. During the year, the capital of the joint venture of HK$9,000,000 has been injected by NA Film. The remaining capital commitment is therefore HK$2,400,000 as at 31 December 2013.

The Company

At 31 December 2013, the Company had no significant capital commitment (2012: Nil).

40. SHARE-BASED EMPLOYEE COMPENSATION

As at 31 December 2013, the Group had share options schemes for employee compensation as set out below.

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 (2012: Nil) equivalent to approximately Nil% (2012: Nil%) 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 2013 and 2012, no share option under the Pre-IPO Share Option Scheme is outstanding.

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 Stock Exchange's daily quotations sheet on the date of grant of the share option, which must be a business day, (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant and (c) the nominal value of a share.

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

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

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.

(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;

(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;

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

40.3 New share option scheme *(Continued)*

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

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

(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 14 May 2013 (2012: 29 June 2012), amounting to 4,056,270,695 (2012: 808,254,139 before the right issue of the Company in December 2012) shares (the "Scheme Mandate Limit"). The Company may renew the Scheme Mandate Limit at any time subject to the approval of the Shareholders in general meeting provided that such renewed limit shall not exceed 10 per cent of the Shares in issue as at the date of approval of such limit;

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

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

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

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

40.3 New share option scheme *(Continued)*

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. No share option was granted during the year ended 31 December 2013.

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 2013	**Granted during the year**	**Lapsed during the year Note (c)**	**Exercise during the year**	**Adjusted upon rights issue Note (d)**	**Outstanding at 31 December 2013**
Option type						
Post-IPO Option Scheme	**124,255,234**	**–**	**–**	**–**	**–**	**124,255,234**
New Scheme	**104,021,999**	**–**	**–**	**–**	**–**	**104,021,999**
	228,277,233	**–**	**–**	**–**	**–**	**228,277,233**
Exercisable at the end of the year						**228,277,233**
Weighted average exercise price	**HK$0.52**	**–**	**–**	**–**	**–**	**HK$0.52**

	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)*

Notes:

(a) The exercise price of options outstanding at the end of the year ranged between HK$0.30 and HK$0.79 (2012: HK$0.30 and HK$0.79) and their weighted average remaining contractual life was 6.8 years (2012: 7.8 years).

(b) No options were exercised during the years ended 31 December 2013 and 2012.

(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.

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
3 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.

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

40.3 New share option scheme *(Continued)*

During the year, the Group recognised the share option expenses of HK$Nil (2012: HK$5,303,000) 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:

	2013 **HK$'000**	2012 HK$'000
Interest paid to a related company	**1,074**	1,334

Note:

During the year ended 31 December 2013, interest expense of HK$1,074,000 (2012: HK$1,334,000) was paid to First Credit in which Mr. Sin Kwok Lam is also a director of this company and has significant influence.

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 13.1.

42. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Disposals of subsidiaries

	Dormant subsidiaries **HK$'000**
Net liabilities disposed of:	
Other payables and accruals	(1,520)
Gain on disposals of subsidiaries	1,520
Consideration satisfied by cash	–
Net cash flow in respect of the disposals of subsidiaries	–

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

Construction costs payable

As at 31 December 2013, amounted to approximately HK$105,716,000 (2012: HK$69,173,000) and HK$70,682,000 (2012: 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 A SUBSIDIARY

On 18 April 2013, the Company acquired 100% equity interests of Broad Sky Investment Limited ("Broad Sky") from an independent third party, at a cash consideration of HK$11,774,000. Broad Sky is incorporated in Hong Kong which has no business activities since incorporation and only held a vacant office premise in Hong Kong.

The acquisition was accounted for as acquisition of assets and liabilities. The difference between the net cash consideration paid and the carrying amount of assets and liabilities of Broad Sky at the date of acquisition represented the additional fair value of the leasehold land and building acquired by the Company.

The assets and liabilities acquired and the breakdown of consideration paid are as followings:

	Fair value at acquisition date HK$'000	Broad Sky's carrying amount HK$'000
The assets and liabilities arising from the acquisition are as follows:		
Leasehold land and building (note 14)	11,778	9,715
Accruals	(4)	(4)
Amount due to shareholder (note)	(10,901)	(10,901)
Net assets/(liabilities)	873	(1,190)
Total consideration paid in cash (cash outflow on acquisition)	11,774	
Less: amount due from Broad Sky (note)	(10,901)	
Net consideration for acquisition	873	

Note: Upon the completion of the acquisition, the amount due by Broad Sky to the vendor would be assigned to the Company.

44. CHANGES IN OWNERSHIP INTERESTS IN SUBSIDIARIES WITHOUT CHANGE OF CONTROL

On 28 February 2011, the Group has obtained 51% equity interests of each of HRL and EPL, which, together with their respective subsidiaries, became subsidiaries of the Group.

On 28 June 2013, the sale and purchase agreement (the "Acquisition Agreement") entered into between the Company, Glory Max Group Limited (a wholly-owned subsidiary of the Company, the "Purchaser") and Mr. Sin Kwok Lam (a non-executive director, chairman and a substantial shareholder of the Company, the "Vendor") (as supplemented by the supplemental agreement dated 9 July 2013). Pursuant to the Acquisition Agreement, the Purchaser conditionally agreed to acquire (i) 49% of the entire issued share capital of each of HRL and EPL and (ii) the loans made to HRL and EPL by the Vendor as at the date of completion of the acquisition from the Vendor at an aggregate consideration of HK$550,000,000, which will be satisfied partly by cash of HK$130,000,000 and partly by the Company's issue of the convertible bonds of HK$420,000,000 (CB4 in note 34) to the Vendor (the "Acquisitions").

The Proposed Acquisition was completed on 4 October 2013 and resulted in an increase in equity interests of 49% in HRL and EPL, which constituted a change in the Group's ownership interest in a subsidiary that does not result in a change of control. According to HKFRS 10, the Acquisition is accounted for as an equity transaction. Any difference between the amount by which non-controlling interests are adjusted and the fair value of the consideration paid is recognised directly in equity attributable to owners of the Company.

The effect of the changes in the ownership interests in HRL and EPL is summarised as follows:

	HK$'000
Fair value of consideration paid	
– Cash consideration	130,000
– CB4	430,196
	560,196
Add: Transaction costs paid for the Acquisition	2,644
Less: Settlement of loans (note)	(110,151)
	452,689
Carrying amount of non-controlling interests acquired	221,606
Excess consideration paid over carrying amount	231,083

Note:

According to the Acquisition Agreement, the loans made by the Vendor to HRL and EPL amounted to approximately HK$110,151,000 at the date of Acquisition will be transferred by the Vendor to the Purchaser at the time when the Acquisition completed.

44. CHANGES IN OWNERSHIP INTERESTS IN SUBSIDIARIES WITHOUT CHANGE OF CONTROL *(Continued)*

Summarised financial information in relation to the non-controlling interests of HRL and its subsidiaries (the "HRL Group") and EPL and its subsidiaries (the "EPL Group"), before intra-group eliminations, is presented below:

	For the period from 1 January 2013 to 4 October 2013 (the Acquisition date) HK$'000	For the year ended 31 December 2012 HK$'000
HRL Group		
Revenue	**2,425**	4,843
Profit for the year	**2,085**	27,489
Total comprehensive income	**5,292**	28,644
Profit allocated to NCI	**1,022**	13,470
Cash flows from operating activities	**(37,389)**	(18,311)
Cash flows from investing activities	**(21,300)**	(57,805)
Cash flows from financing activities	**49,953**	92,616
Net cash (outflows)/inflows	**(8,736)**	16,500
EPL Group		
Revenue	**465**	684
Loss for the year	**(9,454)**	(5,294)
Total comprehensive income	**(6,751)**	(4,939)
Loss allocated to NCI	**(4,633)**	(2,594)
Cash flows from operating activities	**(73,377)**	(3,795)
Cash flows from investing activities	**(51,386)**	(26,982)
Cash flows from financing activities	**102,284**	53,733
Net cash (outflows)/inflows	**(22,479)**	22,956

44. CHANGES IN OWNERSHIP INTERESTS IN SUBSIDIARIES WITHOUT CHANGE OF CONTROL *(Continued)*

Summarised financial information in relation to the HRL Group and the EPL Group as at 31 December 2012 was presented below. The Group has no non-controlling interests as at 31 December 2013.

	HRL Group HK$'000	EPL Group HK$'000
At 31 December 2012		
Current assets	30,610	48,083
Non-current assets	767,405	98,075
Current liabilities	(223,167)	(155,150)
Non-current liabilities	(112,139)	–
Net assets/(liabilities)	462,709	(8,992)
Accumulated non-controlling interests	226,727	(4,406)

45. 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.

45.1 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

	2013 HK$'000	2012 HK$'000
Loans and receivables		
Non-current assets		
– Other receivables	**100,947**	98,097
Current assets		
– Trade receivables	**3,683**	1,162
– Deposits and other receivables	**6,792**	13,791
– Cash and cash equivalents	**8,007**	157,517
	119,429	270,567

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

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

Financial assets – The Company

	2013 HK$'000	2012 HK$'000
Loans and receivables		
– Other receivables	**224**	217
– Amounts due from subsidiaries	**1,110,501**	446,015
– Cash and cash equivalents	**1,341**	103,257
	1,112,066	549,489

Financial liabilities – The Group

	2013 HK$'000	2012 HK$'000
Financial liabilities measured at amortised cost		
– Trade payables	**45**	79
– Other payables and accruals	**215,490**	118,280
– Amount due to a director	**–**	1,151
– Loans from a related party	**12,400**	13,400
– Borrowings	**45,000**	25,000
– Bonds	**74,182**	–
– Convertible bonds	**367,978**	–
– Finance lease obligation	**17,898**	17,613
	732,993	175,523

Financial liabilities – The Company

	2013 HK$'000	2012 HK$'000
Financial liabilities measured at amortised cost		
– Other payables and accruals	**3,042**	1,861
– Amounts due to subsidiaries	**349**	2,279
– Borrowings	**45,000**	25,000
– Bonds	**74,182**	–
– Convertible bonds	**367,978**	–
	490,551	29,140

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

45.2 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.

45.3 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 31 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. 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 2013, 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$505,000 (2012: 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.

45.4 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 76% (2012: 38%) of the total trade receivables are due from the Group's largest customer within film production and distribution segment (2012: film studio and theme park 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.

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

45.5 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 and the earliest date in which the entity can be required to pay were set out below.

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 2013					
Trade and other payables and accruals	215,535	–	–	215,535	215,535
Loans from a related company	12,925	–	–	12,925	12,400
Borrowings	48,384	–	–	48,384	45,000
Bonds	5,908	84,683	–	90,591	74,182
Convertible bonds	21,700	495,311	–	517,011	367,978
Finance lease obligation	3,412	8,192	63,491	75,095	17,898
	307,864	588,186	63,491	959,541	732,993
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

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

45.5 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 2013					
Other payables and accruals	**3,042**	**–**	**–**	**3,042**	**3,042**
Amounts due to subsidiaries	**349**	**–**	**–**	**349**	**349**
Borrowings	**48,384**	**–**	**–**	**48,384**	**45,000**
Bonds	**5,908**	**84,683**	**–**	**90,591**	**74,182**
Convertible bonds	**21,700**	**495,311**	**–**	**517,011**	**367,978**
	79,383	**579,994**	**–**	**659,377**	**490,551**
Financial guaranteed issued:					
Corporate guarantee	**12,400**	**–**	**–**	**–**	**12,400**
At 31 December 2012					
Other payables and accruals	1,861	–	–	1,861	1,861
Amounts due to a 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

45.6 Fair values measurements

Financial instruments not measured at fair value include cash and cash equivalents, trade and other receivables, trade and other payables, loans from a related company, borrowings, finance leases obligation, bonds and convertible bonds.

Due to their short term nature, the carrying value of cash and cash equivalents, trade and other receivables and trade and other payables are approximate to their fair values.

The fair values of loans from a related company, borrowings, finance lease obligation, bonds and convertible bonds have been determined using discounted cash flow models and are classified as level 3 in the fair value hierarchy. Significant inputs include the discount rate used to reflect the credit risks of the borrowers or the Group.

There was on financial instrument measured at fair value as at 31 December 2013 and 2012.

46. 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$41,262,000 (2012: HK$40,562,000).

The gearing ratio at the reporting date is as follows:

	2013	2012
	HK$'000	HK$'000
Total debts		
– Loans from a related company	**12,400**	13,400
– Borrowings	**45,000**	25,000
– Bonds	**74,182**	–
– Convertible bonds	**367,978**	–
– Finance lease obligation	**17,898**	17,613
	517,458	56,013
Total assets	**1,572,053**	1,007,741
Gearing ratio	**33%**	6%

At 31 December 2013, the Group's gearing ratio increased to 33% as a result of convertible bonds and bonds issued during the year.

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

47. CONTINGENT LIABILITIES

At 31 December 2013, the Company had corporate guarantee of HK$12,400,000 (2012: HK$13,400,000) given to a related company to secure loans to NA Entertainment, an indirectly 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 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.

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 RMB600 million for the projects or the Group is liable to pay RMB8 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.

48. EVENTS AFTER THE REPORTING DATE

On 24 January 2014, the Group entered into a loan agreement with a director of the Company for a loan of HK$8,000,000. The loan is unsecured, bearing an interest rate at 9% per annum and will be due for repayment on the date falling half calendar year after 24 January 2014.

In February 2014, the Group realised its banking facilities by obtaining the revolving loan and overdraft in the amounts of HK$10,000,000 and HK$8,500,000 respectively. The loan is secured, bearing interest rate of 2.75% per annum over HIBOR, and will be due for repayment on 4 May 2014. The overdraft is secured and bearing interest rate at the higher of 0.75% per annum below Prime Rate or 1% per annum over HIBOR.

On 24 March 2014, the Group entered into a loan agreement with an independent third party for a loan of HK$50,000,000. The loan is secured, bearing interest rates ranged from 9% to 10% per annum and repayable within 12 months from the date of first drawdown.

49. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2013 were approved for issue by the board of directors on 26 March 2014.

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

	2013 HK$'000	2012 HK$'000	2011 HK$'000	2010 HK$'000	2009 HK$'000
Revenue/Turnover					
– Continuing operations	**19,094**	6,789	16,116	10,505	24
– Discontinued operations	**–**	–	–	375	5,471
Revenue/Turnover	**19,094**	6,789	16,116	10,880	5,495
(Loss)/Profit before income tax	**(17,682)**	2,897	61,411	(36,407)	20,314
Income tax expense	**(6,543)**	(4,938)	(32,344)	–	–
(Loss)/Profit for the year	**(24,225)**	(2,041)	29,067	(36,407)	20,314
Attributable to:					
Owners of the Company	**(20,614)**	(12,917)	(11,410)	(36,407)	20,314
Non-controlling interests	**(3,611)**	10,876	40,477	–	–
	(24,225)	(2,041)	29,067	(36,407)	20,314

ASSETS, LIABILITIES AND EQUITY

	2013 HK$'000	2012 HK$'000	2011 HK$'000	2010 HK$'000	2009 HK$'000
Total assets	**1,572,053**	1,007,741	671,309	231,586	41,379
Total liabilities	**(862,635)**	(213,926)	(171,248)	(13,092)	(30,930)
	709,418	793,815	500,061	218,494	10,449
Equity attributable to the owners of the Company	**709,418**	571,494	289,356	218,494	10,449
Non-controlling interests	**–**	222,321	210,705	–	–
	709,418	793,815	500,061	218,494	10,449