



B&S

ENTERTAINMENT HOLDINGS LIMITED

中大娛樂控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Annual Report 2002

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

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

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

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

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Siu Luen Fat (Chairman)
Mr. Siu Kin Fat (Vice Chairman)
Mr. Siu Kuen Fat (Vice Chairman)

Non-executive Director

Mr. Hung Kam Po

Independent Non-executive Directors

Ms. Chiu Kam Hing, Kathy
Dr. Cheung Wai Bun, Charles
Mr. Kan Ching Duen

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Ho Siu Man, Simon

COMPLIANCE OFFICER

Mr. Siu Luen Fat

AUTHORISED REPRESENTATIVES

Mr. Siu Luen Fat
Mr. Siu Kin Fat

AUDIT COMMITTEE

Ms. Chiu Kam Hing, Kathy (Chairperson)
Dr. Cheung Wai Bun, Charles
Mr. Kan Ching Duen

AUDITORS

Ernst & Young
Certified Public Accountants

PRINCIPAL BANKER

The Hongkong Chinese Bank, Limited

SPONSOR

Kim Eng Capital (Hong Kong) Limited

GEM STOCK CODE

8167

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

7th Floor
Cheong Tai Factory Building
16 Tai Yau Street
San Po Kong
Kowloon, Hong Kong

SOLICITORS

Hong Kong

Iu, Lai & Li

Cayman Islands

Conyers Dill & Pearman, Cayman

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited
36C Bermuda House
British American Centre
Dr. Roy's Drive
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
4th Floor, Hutchison House
10 Harcourt Road
Central
Hong Kong

Chairman's Statement

On behalf of the board (the "Board") of directors (the "Directors") of B&S Entertainment Holdings Limited (the "Company"), I have pleasure to present to the shareholders of the Company ("Shareholders") the first annual report of the Company and its subsidiaries (the "Group") for the year ended 30 June 2002.

FINANCIAL RESULT

For the year ended 30 June 2002, the Group's net profit attributable to Shareholders was approximately HK\$1.4 million as compared to approximately HK\$0.8 million in the previous year, representing an increase of around 70%. Turnover decreased from approximately HK\$28.3 million in the previous year to approximately HK\$23.9 million this year, representing a decrease of around 16%.

DIVIDEND

To retain cashflow for future business development, the Board does not recommend the payment of a final dividend for the year ended 30 June 2002.

BUSINESS REVIEW

For the past twelve months, the Group has launched 13 digital video ("DV") format movies to the market. They were Feng Shui And Gambling, Ling's Story, Troublesome Night 12, Tough Cop Inside, Crazy For Pig-Bone In Pot, Seamy Side Of Life – A Black Chick, Don't Let The Sun Go Down, Troublesome Night 13, Chinese Orthopedist And Spice Girls, Freaky Story, Troublesome Night 14, Money Suckers and Windfall Profits. All together they contributed to the Group's turnover of approximately 75%.

One 35mm format movie, The Hidden Enforcers, which was performed by Mr. Hung Kam Po, was launched to the market in May 2002. It contributed to the Group's turnover of approximately 9%.

The sub-licensing of movies procured from overseas movie producers, including many types of theme, contributed around 16% of the Group's turnover.

During the year, the Group focused on the production of movies and the distribution of the copyright/film rights. As a result of the adverse impact of the piracy activities in Hong Kong, the revenue generated from the sales of videos and video compact discs ("VCDs") were insignificant.

PROSPECTS

The Group aims to become an active movie producer, with the using of both DV filming technology and 35mm filming technology, and a distributor of high quality Chinese language movies in the Greater China region, North America, Europe, Asia and other countries.

For achieving the business objectives, the Group plans to implement several strategies such as investment in production and screening equipment, improvement of movies casting, expansion of market and improvement in production related knowledge and techniques.

To continue the production of high quality movies using both DV and 35mm filming technology in the future, the Group consider that it is important to produce movies with rich content, to follow closely the market trend and to maintain the sound and visual qualities of the movies as well. Thus, the Group will be highly focused in the selection of appropriate scripts, the production of movies and the selection of appropriate freelance writers, production crews and post-production crews with good reputation and relationship with the Group.

It is the Group's belief that as the demand for DV format movies increases in the future and the 35mm format movies will remain as traditional way of the production of movies, there will be continuous demand for both formats of movies in the future. The Group's film library, which consists of more than 60 movies, is one of the most prolific Chinese movie libraries in the world and may support the Group to further develop and expand the business. In addition, we are of the view that the popularity of Chinese movies will be extended to non-Chinese market in the future. The Group has built up a good relationship with its overseas customers and has the ability to produce movies with contents and qualities that will be suitable for the overseas market.

With the support of the Hong Kong SAR Government and the continued recovery in the region, the Hong Kong film industry is undergoing a resurgence. With the continuous consolidation of the Group's foundation, the Directors believe that the economic turnaround in the near future may bring significant contributions to the Group.

APPRECIATION

I would like to take this opportunity to express my thankfulness to the Group's shareholders, customers, film producers and sub-contractors for their support, to the management and staff for their hard work and contributions during the year.

Siu Luen Fat
Chairman

Hong Kong, 24 September 2002

Management Discussion and Analysis

OPERATION REVIEW

For the year under review, the Group's turnover decreased to approximately HK\$23.9 million as compared to approximately HK\$28.3 million in the previous year, representing a decrease of around 16%. It was mainly attributable to the net effects of a drop in the income from sub-licensing of film rights procured from overseas producers by about HK\$10.0 million and an increase in the revenue from licensing of film rights by around HK\$6.8 million. During the year, the Group focused in the production of movies and the distribution of the copyright/film rights and the Directors considered that the piracy activities in Hong Kong had an adverse impact on the sales of videos and VCDs. As a result, the revenue generated from the sales of videos and VCDs were insignificant. Revenues generated in Hong Kong decreased by about HK\$10 million in line with the drop in sub-licensing income of film rights. The Group experienced substantial growth in revenues in other geographical areas.

The gross profit margin of the Group was approximately 27%, representing an increase of approximately 5% as compared to that of the previous year. The increase in gross profit margin for 35mm format movies from approximately 4% for the year ended 30 June 2001 to approximately 9% for the year under review was due to higher quality movies with better casting, which in turn generated higher revenue. The gross profit margin for DV format movies and sub-licensing of the film rights were approximately 34% and 10% respectively, which were similar to that of the previous year. The gross profit margin of sub-licensing business was much lower than that of licensing of film rights. As the Group's sub-licensing business were mainly generated from Hong Kong, the gross profit margin from Hong Kong was then much lower than that of other geographical areas.

Administrative expenses of approximately HK\$3.9 million were mainly comprised of administrative fee paid to a related company of approximately HK\$2.1 million. Selling and distribution costs of approximately HK\$1.4 million were mainly comprised of management fee paid to a related company of approximately HK\$0.5 million and distribution fee paid to media companies of approximately HK\$0.6 million. During the year under review and the previous year, these operating expenses were maintained at similar level without significant fluctuation.

Due to the net effect of the above, the net profit from ordinary activities attributable to Shareholders, increased, for the two years under comparison, from about HK\$0.8 million to about HK\$1.4 million while the net profit margin also increased from about 3% to about 6%.

USE OF NET PROCEEDS FROM LISTING

The Company was listed on the GEM of the Exchange on 6 August 2002 through a placement (“Placing”) of 60,000,000 ordinary shares of HK\$0.01 each of the Company (“Shares”). The net proceeds from such Placing after deduction of the relevant expenses incurred were approximately HK\$24 million. The Group intends to apply such net proceeds for its enhancement of production equipment, improvement of cast and quality of movies, development and training of human resources, sales and marketing activities, promotion of the screening of its movies in cinemas in Hong Kong and development of new business, and additional general working capital. The Directors intend to use the net proceeds in the manner as disclosed in the Company’s prospectus (the “Prospectus”) dated 29 July 2002.

FINANCIAL POSITION

For the year under review, the Group financed its operations with its internally generated resources, advance from a Director and a bank overdraft facility provided by its banker in Hong Kong.

As at 30 June 2002, the Group had total current assets of approximately HK\$12.4 million (2001: HK\$16.5 million), including film rights and films in progress of approximately HK\$6.9 million (2001: HK\$7.9 million) and prepayment, deposits and other receivables of approximately HK\$5.0 million (2001: HK\$8.3 million). The Group has aggregate outstanding borrowings of approximately HK\$10.0 million (2001: HK\$15.4 million). It comprised of a bank overdraft of approximately HK\$0.4 million (2001: HK\$0.5 million) against a facility amount of HK\$0.5 million (2001: HK\$0.5 million) which bore interest at a rate of 3% over prevailing Hong Kong dollars prime rate per annum, and advances due to a Director of approximately HK\$9.6 million (2001: HK\$14.9 million), which was after the debt capitalisation of HK\$17.55 million pursuant to the Group Reorganisation (as defined hereinafter).

Taking into consideration of existing financial resources available to the Group as stated above and the net proceeds from Placing, it is anticipated that the Group should have adequate financial resources to meet its ongoing operating and development requirements.

GEARING RATIO

The gearing ratio of the Group, representing borrowings divided by shareholders equity, was about 6.61 as at 30 June 2002 (2001: 197.41). The significant decrease in the gearing ratio was due to the improvement in the shareholders equity from about HK\$0.1 million as at 30 June 2001 to about HK\$1.5 million as at 30 June 2002.

Management Discussion and Analysis

On 22 July 2002, the Director undertook to the Company that he would not demand repayment of the then outstanding amount due to him by the Group of approximately HK\$9 million from 6 August 2002 until 30 June 2005. The gearing ratio, representing borrowings divided by the shareholders equity, was about 0.35 after the above undertaking and listing of the Company on the GEM of the Exchange for which net proceeds of approximately HK\$24 million were received.

FOREIGN EXCHANGE EXPOSURE AND TREASURY POLICIES

Since most of the Group's borrowings, cash balances and income are primarily denominated in Hong Kong dollars, no hedging or other alternatives have been implemented. The Group has not experienced any material difficulty or effect on its operations or liquidity as a result of fluctuations in currency exchange rates. As at 30 June 2002 and 30 June 2001, the Group did not have outstanding hedging instruments.

The Group continues to adopt a conservative treasury policy with all bank deposits in Hong Kong dollars, keeping minimum exposure to foreign exchange risk. The Group's liquidity and financing arrangements are reviewed regularly.

CHARGES ON GROUP ASSETS

The Group did not have any charge on its assets during the year (2001: Nil).

CONTINGENT LIABILITIES

As at 30 June 2002 and 30 June 2001, the Group did not have any significant contingent liabilities.

SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS

The Group did not have any significant investments for the year ended 30 June 2002 (2001: Nil). Other than those disclosed in the Prospectus under the section headed "Statement of Business Objectives", the Company did not have any plan for material investments and acquisition of material capital assets as at 30 June 2002.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

Apart from a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Group in preparation for listing of the Shares on GEM of the Exchange, details of which had been set out in the Prospectus, there had been no material acquisitions and disposals of subsidiaries during the year (2001: Nil).

EMPLOYEES

As at 30 June 2002, the Group had 12 full-time staff (2001: 14). The total of employee remuneration, including that of the Directors, for the year under review and last corresponding year amounted to about HK\$0.5 million and HK\$0.5 million respectively. The Group remunerates its employees based on their performance, experience and the prevailing industry practice. Employee remuneration, excluding Directors' emoluments, is reviewed annually. In addition to the basic salaries, employees are also entitled to benefits including bonus and mandatory provident fund. On 22 July 2002, the Company had adopted a share option scheme under which full time employees, including Directors, of the Company and its subsidiaries, might be granted options to subscribe for the Shares. At the date of this report, no share options were granted under the share option scheme.

OUTLOOK

The Group has formulated various business strategies and implementation plans for the improvement of equipment and technology used in production of movies, and expansion of distribution networks to new markets. Details of such business strategies and implementation plans can be found in the Prospectus. Shortly after listing of the Shares on GEM, the Group has entered into several contracts with an independent film production company for the production of a number of DV format movies and 35mm format movies which are expected to be completed in the next three years. With the Group's experiences in the DV format movie production, being one of the prime movers in Hong Kong, strengths in the distribution of DV format movies and the extensive experience and expertise of the Group's management team, the Directors are confident that the Group can achieve its objective to become an active movie producer and distributor of Chinese language movies in the Greater China region, North America, Europe, Asia and other countries by using both 35mm filming and DV filming techniques.

Biography of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Siu Luen Fat, aged 43, was appointed as the chairman of the Board and executive Director in May 2002 and one of the founders of the Group. Mr. Siu Luen Fat is responsible for the overall management, strategic planning and development of the Group. Since the foundation of the Group, Mr. Siu Luen Fat has participated in the production of all the movies produced by the Group. Prior to the founding of the Group in May 1997, he has more than 18 years' experience in management of business operations of yarn trading and dyeing business including market development, business strategic planning and business goal planning. Mr. Siu Luen Fat obtained a diploma in business management jointly issued by the Hong Kong Polytechnic University (previous known as the Hong Kong Polytechnic) and the Hong Kong Management Association in 1994. Mr. Siu Luen Fat is the brother of Mr. Siu Kin Fat and Mr. Siu Kuen Fat.

Mr. Siu Kin Fat, aged 51, was appointed as one of the vice-chairmen of the Board and executive Director in May 2002 and one of the founders of the Group. Mr. Siu Kin Fat is mainly responsible for the management of the daily operation of the Group. Since the foundation of the Group, Mr. Siu Kin Fat has participated in the production of all the movies produced by the Group. Prior to the founding of the Group in May 1997, he has more than 20 years' experience in management of business operations of yarn trading and dyeing business including market development, business strategic planning and business goal planning. Mr. Siu Kin Fat obtained a diploma in business management jointly issued by the Hong Kong Polytechnic University (previous known as the Hong Kong Polytechnic) and the Hong Kong Management Association in 1995. Mr. Siu Kin Fat is the brother of Mr. Siu Luen Fat and Mr. Siu Kuen Fat.

Mr. Siu Kuen Fat, aged 46, was appointed as one of the vice-chairmen of the Board and executive Director in May 2002 and one of the founders of the Group. Mr. Siu Kuen Fat is mainly responsible for the management of the daily operation of the Group. Since the foundation of the Group, Mr. Siu Kuen Fat has participated in the production of all the movies produced by the Group. Prior to the founding of the Group in May 1997, he has more than 18 years' experience in management of business operations of yarn trading and dyeing business including market development, business strategic planning and business goal planning. Mr. Siu Kuen Fat obtained a diploma in business management jointly issued by the Hong Kong Polytechnic University (previous known as the Hong Kong Polytechnic) and the Hong Kong Management Association in 1995. Mr. Siu Kuen Fat is the brother of Mr. Siu Luen Fat and Mr. Siu Kin Fat.

Biography of Directors and Senior Management

NON-EXECUTIVE DIRECTOR

Mr. Hung Kam Po, aged 50, was appointed to the Board as non-executive Director in June 2002. Mr. Hung is a well-known movie director and actor. Mr. Hung has over 25 years of experience in the entertainment and movie industry in Hong Kong and was accredited as “The Best Actor” for “The Pickpocket (提防小手)” in the 2nd Hong Kong Film Awards and, “The Best Actor” for “The Painted Faces (七小福)” in the 8th Hong Kong Film Awards and the 33rd Asia Pacific Film Awards. In 1997, Mr. Hung took a leading role in “The Martial Law”, an American television series for CBS Worldwide Inc. in Los Angeles, United States of America and was selected as one of the 25 most intriguing people of the year by People Magazine in 1999, further evidencing the worldwide recognition of his success in the movie industry.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Chiu Kam Hing, Kathy, aged 53, was appointed as an independent non-executive Director in May 2002. Ms. Chiu is also the chairman and executive director of Prime Investments Holdings Limited and an independent non-executive director of Qianlong Technology International Holdings Limited. She has over 29 years of banking experience. Ms. Chiu is active in community services and was appointed by the government of Hong Kong to serve as a member to the Deportation Tribunal, the Solicitors Disciplinary Tribunal Panel, the Regional Advisory Committee for Hong Kong Hospital Authority and the Education Commission and as an adjudicator of the Immigration Tribunal and the Obscene Articles Tribunal. She was also the former chairman of Po Leung Kuk and a committee member of the Jackie Chan Foundation. Ms. Chiu graduated from University of Toronto, Canada and is an associate and a fellow member of the Institute of Canadian Bankers. She was appointed as a Justice of Peace in 1992 and as Cavaliere by the Italian government in 1999.

Biography of Directors and Senior Management

Dr. Cheung Wai Bun, Charles, J.P., aged 66, was appointed as an independent non-executive Director in July 2002. Dr. Cheung is the group chief executive and executive deputy chairman of Mission Hills Group, a non-listed group of companies which operate a golf club, hotels and resorts and property development, non-executive director and chairman of the respective audit committees, of K. Wah International Holdings Limited, K. Wah Construction Materials Limited, Pioneer Global Group Limited and Prime Investments Holdings Limited, which are companies listed on the Stock Exchange. Dr. Cheung has over 37 years of working experience and has held senior management positions in various industries including banking property, hotel development and investment. Dr. Cheung holds an honorary doctorate degree in business administration, a master degree in business administration and a bachelor degree of science. Dr. Cheung is also a director of Global Business Bank, a publicly listed bank in the Philippines. He was a former director and advisor of the Tung Wah Group of Hospitals. Dr. Cheung is a vice-chairman of Guangdong Province Golf Association.

Mr. Kan Ching Duen, aged 43, was appointed as an independent non-executive Director in May 2002. Mr. Kan is a solicitor practicing qualified in Hong Kong. He engages his own private legal practice as the sole proprietor of a law firm in Hong Kong handling legal matters including conveyancing and property projects, civil and criminal litigation, matrimonial, probate, intellectual property and commercial matters. Mr. Kan graduated from the University of Hong Kong with a bachelor degree in social sciences and was awarded with a master degree in Chinese and Comparative Law by the City University of Hong Kong.

SENIOR MANAGEMENT

Ms. Man Ka Bo, aged 39, is the administration director of the Group. Ms. Man is mainly responsible for the administration of the Group and she has over 15 years of experience in corporate management and administration. Ms. Man obtained a diploma in business management jointly issued by the Hong Kong Polytechnic University (previous known as the Hong Kong Polytechnic) and the Hong Kong Management Association in 1996. Ms. Man has been appointed to the current position in July 1997.

Ms. Lo Man Ling, aged 37, is the distribution director of the Group. Ms. Lo is in charge of the distribution and marketing departments of the Group. She has over five years of experience in the film distribution sector. Ms. Lo obtained a diploma in business management jointly issued by the Hong Kong Polytechnic University (previous known as the Hong Kong Polytechnic) and the Hong Kong Management Association in 1996. Ms. Lo has been appointed to the current position in July 1997.

Biography of Directors and Senior Management

Mr. Ho Siu Man, Simon, aged 42, is the qualified accountant and company secretary of the Company. He is mainly responsible for the accounting and financial management of the Group. Mr. Ho holds a bachelor degree of science (in engineering) from the University of Hong Kong and a master degree of business administration from the Chinese University of Hong Kong. Mr. Ho is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants.

Mr. Yeung Yat Tak, aged 39, is the chief producer of the Group. Mr. Yeung is mainly responsible for the overall control of script and production of movies for the Group. Mr. Yeung has over 10 years of experience in the filming industry engaged in various senior positions including executive producer, film director and screenplay. Mr. Yeung was a lecturer in design and photography of The First Institute of Arts Design from 1985 to 1987 and is currently a part-time instructor in the certificate program of film making in the School of Continuing Studies of the Chinese University of Hong Kong. Mr. Yeung is a member of the Hong Kong Film Directors Guild and a member of the Hong Kong Film Screenplay Association. Mr. Yeung has been appointed to the current position in July 1997.

Mr. Cheung Siu Kin, aged 34, is the executive producer of the Group. Mr. Cheung is mainly responsible for the administration of the production and post-production of movies for the Group. Mr. Cheung has over 10 years of experience in the film industry and has previously been engaged as a film director, an assistant film director and a film producer. Mr. Cheung is a member of the Hong Kong Film Director Guild. Mr. Cheung has been appointed to the current position in June 1998.

Report of the Directors

The Directors present their first report and the audited financial statements of the Company for the period from 11 April 2002 (date of incorporation) to 30 June 2002, which included supplementary pro forma combined financial statements of the Group for the year ended 30 June 2002. The Group was legally formed subsequent to 30 June 2002.

GROUP REORGANISATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 11 April 2002. Pursuant to the Group Reorganisation to rationalise the structure of the Group in preparation for the listing of the Company's Shares on the GEM of the Exchange, the Company became the holding company of the companies now comprising the Group on 22 July 2002. Further details of the Group Reorganisation and the subsidiaries acquired pursuant thereto are set out in notes 1, 21 and 26 to the financial statements.

Subsequent to the balance sheet date, on 6 August 2002, pursuant to the Placing, the Shares were listed on the GEM of the Exchange.

In order to apprise the Shareholders of the pro forma combined financial results and position of the Group, should the Group have been in existence throughout the year ended 30 June 2002, supplementary financial information comprising pro forma combined profit and loss account, balance sheet and cash flow statement have been included in the financial statements. The basis of preparing the supplementary financial information, which is detailed in note 3 to the financial statements, has also been consistently applied for presenting the information relating to the Group in this report of the Directors.

PRINCIPAL ACTIVITIES

As at 30 June 2002, the Company had not yet commenced business and the Group was not in existence.

The current principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 26 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's pro forma combined profit for the year ended 30 June 2002 and its pro forma combined state of affairs as at that date, together with the state of affairs of the Company as at 30 June 2002, are set out in the financial statements on pages 23 to 53.

The Directors do not recommend the payment of any dividends in respect of the year.

FIXED ASSETS

Details of movements in the Group's fixed assets during the year are set out in note 13 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital since 11 April 2002 (date of incorporation), together with the reasons therefor, are set out in note 21 to the financial statements.

RESERVES

Details of movements in the Group's reserves are set out in note 22 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new Shares on a pro rata basis to existing Shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

The Shares were listed on the GEM of the Exchange on 6 August 2002. Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities since that date.

DISTRIBUTABLE RESERVES

As at 30 June 2002, the Company did not have any distributable reserves.

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 83% of the Group's total sales for the year and sales to the largest customer included therein accounted for approximately 25% of the Group's total sales.

Purchases from the Group's five largest suppliers accounted for approximately 92% of the Group's total purchases for the year and purchases from the largest supplier included therein accounted for approximately 62% of the Group's total purchases.

None of the Directors, or any of their associates or shareholders (which to the best knowledge of the Directors own more than 5% of the Company's issued share capital), had any beneficial interest in the Group's five largest customers or suppliers.

DIRECTORS

The Directors of the Company since 11 April 2002 (date of incorporation) and up to the date of this report were:

Executive Directors:

Mr. Siu Luen Fat (Chairman)	(appointed on 2 May 2002)
Mr. Siu Kin Fat	(appointed on 2 May 2002)
Mr. Siu Kuen Fat	(appointed on 2 May 2002)

Non-executive Director:

Mr. Hung Kam Po	(appointed on 12 June 2002)
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Independent non-executive Directors:

Ms. Chiu Kam Hing, Kathy	(appointed on 2 May 2002)
Dr. Cheung Wai Bun, Charles	(appointed on 11 July 2002)
Mr. Kan Ching Duen	(appointed on 2 May 2002)

In accordance with articles 87(1) and (2) and 88 of the Company's articles of association, Mr. Siu Kin Fat and Mr. Siu Kuen Fat will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years commencing on 6 August 2002 renewable automatically for successive terms of one year upon expiry of the term, until terminated by not less than three months notice in writing served by either party.

The term of appointment for the non-executive Director and each of the independent non-executive Directors commences on 6 August 2002 and will expire on the date on which the annual general meeting of the Company for the year of 2003 is held, subject to retirement by rotation and other related provisions as stipulated in the articles of association of the Company.

Apart from the foregoing, no Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save for transactions in connection with the Group Reorganisation in preparation for the Company's Placing, as disclosed in note 1 and 21 to the financial statements, and the related party transactions disclosed in note 28 to the financial statements, no Director had a significant beneficial interest, directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

Subsequent to the balance sheet date, on 6 August 2002, the Company was listed on the GEM of the Exchange. At the date of this report, the interests of the Directors and their associates in the listed share capital of the Company or its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

Name of Director	Corporate interest	Percentage of holding
Mr. Siu Luen Fat	200,400,000*	50.1%
Mr. Siu Kin Fat	200,400,000*	50.1%
Mr. Siu Kuen Fat	200,400,000*	50.1%
Mr. Hung Kam Po	40,800,000**	10.2%

* Mr. Siu Luen Fat, Mr. Siu Kin Fat and Mr. Siu Kuen Fat had equally beneficial interest in Coxwell Corp., which owns 200,400,000 ordinary shares of the Company.

** Mr. Hung Kam Po has a beneficial interest of 34.2% in Baserich International Limited, which owns 40,800,000 ordinary shares of the Company.

Save as disclosed above, none of the Directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Share option scheme" below, and other than in connection with the Group Reorganisation in preparation for the Placing of the Company's Shares, at no time since its incorporation was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SHARE OPTION SCHEME

On 22 July 2002, a share option scheme (the "Scheme") was approved by written resolution of the then shareholders of the Company. The purpose of the Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include Directors of the Company or any of its subsidiaries, independent non-executive Directors and employees of the Group, and suppliers of goods or services to the Group.

The total number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and under any other schemes of the Company must not exceed 30% of the Shares in issue from time to time. A nominal consideration of HK\$1 is payable by the grantee upon acceptance of such a grant of options.

The subscription price for Shares issuable under the Scheme may be determined by the Board at its absolute discretion but in any event will not be less than the higher of: (i) the nominal value of the Shares; (ii) the closing price of the Shares as stated in the Exchange's daily quotation sheets on the date of grant, which must be a business day; and (iii) the average of the closing prices of the Shares as stated in the Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the relevant share option.

Any grant of share options to a director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is a grantee). Any share options granted to a substantial shareholder or an independent non-executive Director of the Company, or any of their respective associates, in excess of 0.1% of the shares of the Company in issue on the date of the offer and with an aggregate value in excess of HK\$5 million based on the closing price of the shares at the date of each offer, within any 12-month period, are subject to Shareholders' approval in advance in a general meeting on a poll. In addition, any share options granted to any person in excess of 1% of the shares of the Company in issue at any time within any 12-month period, are subject to Shareholders' approval in advance in a general meeting.

The options granted may be exercised at any time during a period commencing immediately after the date on which the option is deemed to be granted and accepted and expiring on a date to be determined and notified by the Board of Directors, which shall not be more than 10 years from the date on which the option is granted. The Scheme remains in force for a period of 10 years with effect from 22 July 2002.

No share option have been granted by the Company under the Scheme up to the date of approval of these financial statements.

SUBSTANTIAL SHAREHOLDERS

At the date of this report, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares held	Percentage of holding
Coxwell Corp.	200,400,000*	50.1%
Baserich International Limited	40,800,000*	10.2%

* The shareholdings are duplicated in the "Directors' interests in Shares" section above.

Save as disclosed above, no person, other than the Directors whose interests are set out in the section headed "Directors' interests in Shares" above, had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

SPONSOR'S INTEREST

The sponsor of the Placing was Kim Eng Capital (Hong Kong) Limited (the "Sponsor").

The Sponsor has confirmed, up to and as at the date of this report, that none of the Sponsor or its associates, directors or employees have or may, as a result of the Placing, have any interest in any class of securities of the Company or any of member company of the Group (including options or rights to subscribe for such securities).

Pursuant to a sponsor agreement dated 29 July 2002 between the Company and the Sponsor, the Sponsor is entitled to receive a fee for acting as the Company's sponsor for the period from 6 August 2002 (date of commencement of the dealing of the Shares on the GEM of the Exchange) to 30 June 2005.

CONNECTED AND RELATED PARTY TRANSACTIONS

Details of the related party transactions for the year are set out in note 28 to the financial statements. The Exchange has granted a conditional waiver to the Group from the reporting and announcement disclosure and shareholders' approval requirements under Chapter 20 of the GEM Listing Rules in respect of the continuing connected transaction with Far East Asia Investments Limited ("Far East Asia") for the two financial years ending 30 June 2004, which is detailed as follows:

Mr. Hung Kam Po ("Mr. Hung"), the non-executive Director, is a director and beneficial shareholder of Far East Asia. The connected transaction related to the payment of actor's fee amounting to HK\$4 million to Far East Asia during the year ended 30 June 2001 for Mr. Hung's participation in the production of movies to be produced by the Group. Such waiver was granted on the condition that the annual cap for the utilisation of the actors' fee will not exceed HK\$2 million for each of the two financial years ending 30 June 2004.

The Directors (including the independent non-executive Directors) and the Sponsor are of the view that the transaction is in the ordinary and usual course of business of the Company, and is fair and reasonable and in the interests of the Shareholders taken as a whole.

During the year, no amount of the above actors' fee was utilised.

Save as disclosed herein, there were no other transactions to be disclosed as connected or related party transactions in accordance with the requirements of the GEM Listing Rules and accounting principles generally accepted in Hong Kong.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events are set out in note 27 to the financial statements.

COMPETITION AND CONFLICTS OF INTERESTS

None of the Directors, the management Shareholders or substantial Shareholders of the Company or any of their respective associates has during the year engaged in any business that competes or may compete with the business of the Group or has any other conflict of interests with the Group.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules since the listing of the Shares on the GEM of the Exchange on 6 August 2002.

AUDIT COMMITTEE

The Company established an audit committee on 22 July 2002 with written terms of reference in compliance with Rules 5.23 and 5.24 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group and to review the Company's annual reports and accounts, and half yearly and quarterly reports. The audit committee comprises three members, Ms. Chiu Kam Hing, Kathy, Dr. Cheung Wai Bun, Charles, and Mr. Kan Ching Duen, who are the independent non-executive Directors. The Group's audited results for the year ended 30 June 2002 have been reviewed by the committee, which is of the opinion that the preparation of such results comply with the applicable accounting standards and requirements and that adequate disclosures have been made.

AUDITORS

Ernst & Young were appointed as the first auditors of the Company for the period ended 30 June 2002.

Ernst & Young retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Siu Luen Fat
Chairman

Hong Kong, 24 September 2002

Report of the Auditors

ERNST & YOUNG

安永會計師事務所

To the members

B&S Entertainment Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on 23 to 53 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 30 June 2002 and of its results for the period from 11 April 2002 (date of incorporation) to 30 June 2002 and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong

24 September 2002

Balance Sheet

30 June 2002

	<i>Notes</i>	<i>HK\$'000</i>
CURRENT ASSET		
Cash on hand		—
		<u> </u>
CAPITAL		
Issued capital	1, 21	—
		<u> </u>

Siu Luen Fat
Director

Siu Kuen Fat
Director

Pro Forma Combined Profit and Loss Account

Year ended 30 June 2002

	Notes	2002 HK\$'000	2001 HK\$'000
TURNOVER	4	23,872	28,267
Cost of sales		<u>(17,337)</u>	<u>(21,969)</u>
Gross profit		6,535	6,298
Other income	4	284	19
Selling and distribution costs		(1,395)	(1,362)
Administrative expenses		<u>(3,931)</u>	<u>(4,011)</u>
PROFIT FROM OPERATING ACTIVITIES	6	1,493	944
Finance costs	7	<u>(38)</u>	<u>(52)</u>
PROFIT BEFORE TAX		1,455	892
Tax	10	<u>(18)</u>	<u>(45)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>1,437</u>	<u>847</u>
EARNINGS PER SHARE	11		
Basic		<u>0.42 cents</u>	<u>0.25 cents</u>
Diluted		<u>N/A</u>	<u>N/A</u>

Other than the net profit from ordinary activities attributable to shareholders, the Group had no recognised gains or losses. Accordingly, a pro forma combined statement of recognised gains and losses is not presented in the financial statements.

Pro Forma Combined Balance Sheet

30 June 2002

	Notes	2002 HK\$'000	2001 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	13	93	206
Prepayments		2,000	—
		2,093	206
CURRENT ASSETS			
Film rights and films in progress	14	6,923	7,895
Inventories	15	—	3
Accounts receivable	16	330	202
Prepayments, deposits and other receivables		5,026	8,253
Cash and bank balances		80	131
		12,359	16,484
CURRENT LIABILITIES			
Deposits received		493	470
Accounts payable	17	30	229
Accrued liabilities and other payables		1,072	474
Tax payable		10	41
Due to a related company	18	1,320	—
Due to a director	19	9,617	14,941
Bank overdrafts, secured	20	395	457
		12,937	16,612
NET CURRENT LIABILITIES			
		(578)	(128)
CAPITAL AND RESERVES			
Issued capital	21	100	100
Reserves	22	1,415	(22)
		1,515	78

Siu Luen Fat
Director

Siu Kuen Fat
Director

Pro Forma Combined Cash Flow Statement

Year ended 30 June 2002

	Note	2002 HK\$'000	2001 HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	23	101	175
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		—	2
Interest paid		(38)	(52)
Net cash outflow from returns on investments and servicing of finance		(38)	(50)
TAX			
Hong Kong profits tax paid		(49)	(80)
INVESTING ACTIVITIES			
Purchases of fixed assets		(3)	(91)
Net cash outflow from investing activities		(3)	(91)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		11	(46)
Cash and cash equivalents at beginning of the year		(326)	(280)
CASH AND CASH EQUIVALENTS AT END OF YEAR		(315)	(326)
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		80	131
Bank overdrafts, secured		(395)	(457)
		(315)	(326)

1. GROUP REORGANISATION AND CORPORATE INFORMATION

The Company

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 11 April 2002. On incorporation, the Company had authorised share capital of HK\$30,000,000 divided into 3,000,000,000 shares of HK\$0.01 each, of which 1 share and 14,999 shares were allotted, issued and fully paid on 11 April 2002 and 2 May 2002, respectively. Apart from the foregoing, no other transactions were carried out by the Company during the period from 11 April 2002 (date of incorporation) to 30 June 2002. Accordingly, the Company did not have any profits and losses for the period.

Comparative amounts have not been presented for the Company's balance sheet because the Company was not in existence on 30 June 2001.

Group reorganisation

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 6 August 2002 (the "Listing"), the Company became the holding company of the companies now comprising the Group on 22 July 2002. This was accomplished by (i) allotment and issuance of 15,000 shares of US\$1 each of the share capital of B & S Group Limited ("B&S BVI"), which is, at the date of this report, the intermediate holding company of other subsidiaries set out in note 26 to the financial statements, credited as fully paid to set off against loans in the amount of HK\$17,550,000 owing to the executive directors of the Company; and (ii) the Company's acquisition of the entire issued share capital of B&S BVI in consideration of and in exchange for the allotment and issue of a total of 9,985,000 shares of HK\$0.01 each of the Company, credited as fully paid, to the former shareholders of B&S BVI. Further details of the Group Reorganisation are set out in the Company's prospectus (the "Prospectus") dated 29 July 2002.

Notes to Financial Statements

30 June 2002

1. GROUP REORGANISATION AND CORPORATE INFORMATION (Cont'd)

Corporate information

Had the Group Reorganisation been completed on 1 July 2000 and had the Group been in existence since that date, the Group's principal activities would have been the production and sale of videos and films, and the licensing of video and copyrights/film rights during the period from 1 July 2000 to 30 June 2002.

In the opinion of the directors, had the Group Reorganisation been completed on 1 July 2000 and had the Group been in existence since that date, the ultimate holding company of the Company as at 30 June 2002 would have been Coxwell Corp., a company incorporated in the British Virgin Islands.

2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following recently-issued and revised SSAPs are effective for the first time for the current year's financial statements:

- SSAP 9 (Revised) : "Events after the balance sheet date"
- SSAP 14 (Revised) : "Leases"
- SSAP 26 : "Segment reporting"
- SSAP 28 : "Provisions, contingent liabilities and contingent assets"
- SSAP 30 : "Business combinations"
- SSAP 31 : "Impairment of assets"
- SSAP 32 : "Consolidated financial statements and accounting for investments in subsidiaries"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustments to the financial statements and which require disclosure but no adjustment, and has had no major impact on these financial statements.

2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") (Cont'd)

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting treatments, but these amendments have not had a material effect on the amounts previously recorded in the profit and loss account and balance sheet, and therefore no prior year adjustments have been required. The disclosure changes under SSAP 14 (Revised) have resulted in total future commitments being disclosed for commitments under operating leases, rather than only the forthcoming year's commitments as was previously the case, as detailed in note 25 to the financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment reporting format, with the other as the secondary segment reporting format. The impact of SSAP 26 is the inclusion of additional segment reporting disclosures which are set out in note 5 to the financial statements.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosure in respect thereof. The new SSAP 28 has had no major impact on these financial statements.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The new SSAP 30 has had no major impact on these financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP 31 is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

SSAP 32 prescribes the accounting treatment and disclosures in respect of the preparation and presentation of consolidated financial statements, and has had no significant impact on the preparation of these financial statements.

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and combination

The Group Reorganisation involved companies under common control. Because the Group Reorganisation took place on 22 July 2002, according to SSAP 27 "Accounting for group reconstructions", the Company together with its subsidiaries should only be regarded and accounted for as a continuing group in the preparation of the Group's financial statements commencing from the year ending 30 June 2003. Nevertheless, for the benefit of shareholders, pro forma combined financial statements for the current year and the related notes thereto have been presented in these financial statements on the basis that the Company is treated as the holding company of its subsidiaries for the financial years presented rather than from the subsequent date of acquisition of the subsidiaries on 22 July 2002. The pro forma combined results of the Group for each of the years ended 30 June 2001 and 2002 include the results of the Company and its subsidiaries with effect from 1 July 2000 or since their respective dates of incorporation, where this is a shorter period. The pro forma combined balance sheets as at 30 June 2001 and 2002 have been prepared on the basis that the current Group structure was in place at those dates.

All significant transactions and balances among the companies comprising the Group have been eliminated on combination.

Although the Group Reorganisation had not been completed at the balance sheet date and accordingly, the Group did not legally exist until 22 July 2002, in the opinion of the directors, the presentation of such pro forma combined financial statements prepared on the aforesaid basis is necessary to apprise the Company's shareholders of the Group's results and of its state of affairs as a whole.

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's investment in subsidiaries are stated at cost less any impairment losses.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates for this purpose are as follows:

Office equipment	25%
Furniture and fixtures	25%
Plant and machinery	25%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account, is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Film rights, films in progress and sub-licensing rights

— Film rights

Films produced or acquired by the Group are stated at production or acquisition costs less amortisation and any foreseeable losses. Costs represent the carrying amount transferred from films in progress upon their completion or the purchase price of the film rights, and are amortised at rates calculated to write off these costs in proportion to the expected revenues from the distribution and licensing of the films. Provisions are made against the carrying amounts of films if the carrying amounts exceed their expected future revenue.

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Film rights, films in progress and sub-licensing rights *(Cont'd)*

— Films in progress

Films in progress are stated at cost less any impairment losses. Costs include all direct costs associated with the production of films. Provisions are made against costs which are in excess of future revenue expected to be generated by these films. The costs of films in progress are transferred to film rights upon completion.

— Sub-licensing rights

Licence fees paid to acquire the rights for the sub-licensing of films produced by third parties in specified geographical areas and time periods are accounted for as sub-licensing rights. Upon the release of these purchased films, the relevant portion of the licence fees are charged to the profit and loss account on a systematic basis, in proportion to the expected revenues and the underlying licence periods. Provisions are made against the carrying amounts of the sub-licensing rights if the carrying amounts exceed their expected future revenue.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Cash equivalents

For the purpose of the pro forma combined cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of pro forma combined balance sheet, cash and bank balances represent assets which are not restricted as to use.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

Revenue recognition

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

- from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- income from the licensing and sub-licensing of distribution rights over films is recognised 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 master tapes to the customers; and
- interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On combination, the financial statements of overseas subsidiaries expressed in foreign currencies are translated to Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Retirement benefits costs

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account 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.

Notes to Financial Statements

30 June 2002

4. TURNOVER AND REVENUE

Turnover represents licensing and sub-licensing fee income and the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of the Group's turnover and other revenue is as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Turnover		
Licensing of film rights	19,937	13,114
Sub-licensing of film rights	3,900	13,900
Sale of videos and video compact discs	35	1,253
	<hr/> 23,872	<hr/> 28,267
Other revenue		
Forfeited deposit from a customer	263	—
Interest income	—	2
Other	21	17
	<hr/> 284	<hr/> 19
	<hr/> 24,156 <hr/>	<hr/> 28,286 <hr/>

5. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of operations, products and services they provide. Each of the Group's business segments represents a strategic business unit that offers different products which are subject to risks and returns that are different from those of other business segments.

In determining the Group's geographical segments, revenues and results from the sale of videos and video compact discs are attributed to the segments based on the location of the customers and for the distribution of film rights licensing and sub-licensing activities, based on the location of the ultimate markets. All of the Group's principal activities were carried out in Hong Kong during the year.

Notes to Financial Statements

30 June 2002

5. SEGMENT INFORMATION (Cont'd)

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset and liability information for the Group's business segments.

Group	Film rights licensing and sub-licensing		Sale of videos and video compact discs		Combined	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment revenue:						
Sales to external customers	23,837	27,014	35	1,253	23,872	28,267
Other revenue	284	19	—	—	284	19
Total	<u>24,121</u>	<u>27,033</u>	<u>35</u>	<u>1,253</u>	<u>24,156</u>	<u>28,286</u>
Segment results	<u>1,517</u>	<u>702</u>	<u>(24)</u>	<u>242</u>	<u>1,493</u>	<u>944</u>
Finance costs					(38)	(52)
Profit before tax					1,455	892
Tax					(18)	(45)
Net profit from ordinary activities attributable to shareholders					<u>1,437</u>	<u>847</u>
Segment assets	14,359	16,494	—	65	14,359	16,559
Unallocated assets					93	131
Total assets					<u>14,452</u>	<u>16,690</u>
Segment liabilities	12,502	15,972	30	142	12,532	16,114
Unallocated liabilities					405	498
Total liabilities					<u>12,937</u>	<u>16,612</u>
Other segment information:						
Depreciation	<u>116</u>	<u>159</u>	<u>—</u>	<u>—</u>	<u>116</u>	<u>159</u>

5. SEGMENT INFORMATION (Cont'd)

(b) Geographical segments

The following tables present revenue and profit/(loss) information for the Group's geographical segments.

Group	Hong Kong		Elsewhere in the PRC		Asia excluding Hong Kong and elsewhere in the PRC		Others		Combined	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	8,243	18,327	10,420	7,710	4,050	1,950	1,159	280	23,872	28,267
Other revenue	284	19	—	—	—	—	—	—	284	19
Total	<u>8,527</u>	<u>18,346</u>	<u>10,420</u>	<u>7,710</u>	<u>4,050</u>	<u>1,950</u>	<u>1,159</u>	<u>280</u>	<u>24,156</u>	<u>28,286</u>
Segment results	<u>155</u>	<u>(395)</u>	<u>900</u>	<u>1,038</u>	<u>338</u>	<u>263</u>	<u>100</u>	<u>38</u>	<u>1,493</u>	<u>944</u>

Notes to Financial Statements

30 June 2002

6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Cost of film and sub-licensing rights*	17,288	21,112
Cost of inventories sold	49	857
Depreciation	116	159
Auditors' remuneration	350	240
Staff costs (excluding directors' remuneration in note 8)		
Wages and salaries	337	308
Retirement benefits scheme contributions**	16	9
	<hr/> 353 <hr/>	<hr/> 317 <hr/>
Minimum lease payments under operating leases in respect of land and buildings to:		
a related company – note 28	168	168
an independent third party	167	170
	<hr/> 335 <hr/>	<hr/> 338 <hr/>

* The cost of film and sub-licensing rights for the year has been included in cost of sales in the pro forma combined profit and loss account.

** At 30 June 2002, the Group had no forfeited contributions available to reduce its contributions to the retirement benefits scheme in future years.

7. FINANCE COSTS

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Interest on bank overdrafts wholly repayable within one year	38	52
	<hr/> 38 <hr/>	<hr/> 52 <hr/>

8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on the GEM and Section 161 of the Hong Kong Companies Ordinance is as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Fees	—	—
Other emoluments:		
Allowances	180	180
	<u>180</u>	<u>180</u>
	180	180
	<u>180</u>	<u>180</u>

Each of the three executive directors of the Company received allowances of HK\$60,000 for the year (2001: HK\$60,000 each). No emoluments were payable to the non-executive director or the independent non-executive directors of the Company during the year (2001: Nil).

No emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived or agreed to waive any emoluments during the current or prior years.

9. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals of the Group during the year included two (2001: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2001: three) non-director, highest paid employees are as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Salaries and allowances	274	260
Retirement benefits scheme contributions	13	7
	<u>287</u>	<u>267</u>
	287	267
	<u>287</u>	<u>267</u>

Notes to Financial Statements

30 June 2002

9. FIVE HIGHEST PAID INDIVIDUALS (Cont'd)

The emoluments of each of the remaining non-director, highest paid individuals fell within the band of nil to HK\$1,000,000.

During the current and prior years, no emoluments were paid by the Group to any of the remaining non-director, highest paid individuals as an inducement to join the Group or upon joining the Group, or as compensation for loss of office.

10. TAX

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the year.

As at the balance sheet date, the Group's deferred tax asset not recognised was HK\$2,117,000 (2001: HK\$2,898,000), which principally represented tax losses carried forward.

There was no unprovided deferred tax liability in respect of the year (2001: Nil).

11. EARNINGS PER SHARE

The pro forma basic earnings per share for the year is calculated based on the pro forma combined net profit from ordinary activities attributable to shareholders of the Company for the year of HK\$1,437,000 (2001: HK\$847,000) and 340,000,000 shares (2001: 340,000,000 shares) deemed to have been issued and issuable during the year, on the assumption that the Group Reorganisation and the subsequent capitalisation issue of 330,000,000 shares of the Company had been effective on 1 July 2000.

Pro forma diluted earnings per share amounts for each of the two years ended 30 June 2002 and 2001 has not been disclosed as no diluting event existed during these years.

12. DIVIDENDS

No dividend has been paid or declared by the Company or any of the companies comprising the Group since their respective dates of incorporation.

13. FIXED ASSETS

	Office equipment <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:				
At beginning of year	120	185	332	637
Additions	—	3	—	3
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2002	120	188	332	640
Accumulated depreciation:				
At beginning of year	100	122	209	431
Provided during the year	13	28	75	116
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2002	113	150	284	547
Net book value:				
At 30 June 2002	<u>7</u>	<u>38</u>	<u>48</u>	<u>93</u>
At 30 June 2001	<u>20</u>	<u>63</u>	<u>123</u>	<u>206</u>

14. FILM RIGHTS AND FILMS IN PROGRESS

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Film rights	4,756	1,753
Films in progress	2,167	2,632
Sub-licensing rights	—	3,510
	<hr/>	<hr/>
	<u>6,923</u>	<u>7,895</u>

15. INVENTORIES

No inventories were stated at net realisable value as at 30 June 2001.

Notes to Financial Statements

30 June 2002

16. ACCOUNTS RECEIVABLE

An aged analysis of accounts receivable at the balance sheet date, based on invoice date, is as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Within 30 days	101	188
Between 31 to 60 days	81	—
Between 61 to 90 days	—	—
Over 90 days	148	14
	<hr/> 330 <hr/>	<hr/> 202 <hr/>

The credit terms offered by the Group are in accordance with the terms specified in the agreements entered into with the customers. For customers which have a long established business relationship with the Group and which are assessed to have good creditworthiness, a 30-day credit term is offered, subject to the directors' approval.

17. ACCOUNTS PAYABLE

An aged analysis of accounts payable as at the balance sheet date, based on invoice date, is as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Within 30 days	8	25
Between 31 to 60 days	13	—
Between 61 to 90 days	9	—
Over 90 day	—	204
	<hr/> 30 <hr/>	<hr/> 229 <hr/>

18 DUE TO A RELATED COMPANY

The amount due to a related company was unsecured, interest-free and fully repaid in August 2002.

19. DUE TO A DIRECTOR

The amount due to a director is unsecured and interest-free. On 22 July 2002, a balance due to the directors by the Group of HK\$17,550,000 was applied as the consideration in exchange for 15,000 shares of US\$1 each issued by B&S BVI, being the intermediate holding company of the companies comprising the Group, credited as fully paid, pursuant to the Group Reorganisation as set out in note 1 to the financial statements and in the Prospectus dated 29 July 2002.

On 22 July 2002, the director has undertaken to the Company that he will not demand repayment of the then outstanding amount due to him by the Group of HK\$9,046,000 from 6 August 2002 (the date on which the Company's shares were listed on the GEM) to 30 June 2005 and from 30 June 2005 onwards unless:

- (i) the Group has positive cash flow and retained earnings in the financial year immediately preceding the financial year in which the repayment is required to be made and such positive cash flows are sufficient to fund the repayment of the amount due and all the working capital needs of the Group for the financial year in which such repayment is required to be made; and
- (ii) each of the then independent non-executive directors confirms that such repayment of any of the outstanding amount will not adversely affect the Group's operations or the implementation of its business plans up to 30 June 2005.

20. BANK OVERDRAFTS, SECURED

The bank overdrafts were secured by personal guarantees from the three executive directors of the Company and corporate guarantees from the related companies, Lightal Limited, which is beneficially owned by Mr. Siu Luen Fat, and Bossfield Investment Limited, which has common directors with the Company.

Pursuant to the renewal of a banking facility arrangement subsequent to the balance sheet date, the bank overdrafts were secured by a corporate guarantee from the Company. The personal guarantees from the directors and the corporate guarantees from related companies were then released.

Notes to Financial Statements

30 June 2002

21. SHARE CAPITAL

Shares

The following is a summary of movements in the authorised and issued share capital of the Company:

	Notes	Number of shares ordinary shares of HK\$0.01 each	Value HK\$
Authorised:			
On incorporation, at 30 June 2002 and at 6 August 2002, the Listing date	21(i)	<u>3,000,000,000</u>	<u>30,000,000</u>
Issued and fully paid:			
Allotted and issued at par	21(i)	15,000	150
On acquisition of B&S BVI * —consideration share issues credited as fully paid	21(ii)	9,985,000	99,850
Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the issue of new shares to the public by way of placement	21(iii)	<u>330,000,000</u>	<u>—</u>
Pro forma share capital of the Group at 30 June 2001 and 2002		340,000,000	100,000
Capitalisation of the share premium account as set out above	21(iii)	—	3,300,000
New issue of shares	21(iv)	<u>60,000,000</u>	<u>600,000</u>
At 6 August 2002, the Listing date		<u>400,000,000</u>	<u>4,000,000</u>

* Pursuant to the basis of presentation set out in note 3, the pro forma combined financial statements of the Group have been presented as if the Group Reorganisation on 22 July 2002 had been completed on 1 July 2000.

21. SHARE CAPITAL (Cont'd)**Shares (Cont'd)**

The following changes in the Company's authorised and issued share capital took place during the period from 11 April 2002 (date of incorporation) to the date of approval of this annual report:

- (i) On 11 April 2002 (date of incorporation), the authorised share capital of the Company was HK\$30,000,000 divided into 3,000,000,000 shares of HK\$0.01 each, one share was allotted and issued at par for cash. On 2 May 2002, 14,999 shares of HK\$0.01 each were allotted and issued at par for cash.
- (ii) Pursuant to a written resolution of the sole shareholder of the Company passed on 22 July 2002, the directors were authorised to acquire the entire share capital of B&S BVI and became the holding company of the Group in exchange for the Company's allotted and issued 9,985,000 shares of HK\$0.01 each, credited as fully paid.
- (iii) Pursuant to a written resolution of the then shareholders of the Company passed on 22 July 2002, an aggregate of 330,000,000 shares were allotted and issued, credited as fully paid at par by the capitalisation of HK\$3,300,000 from the share premium account arising from the Placing, to the then existing shareholders of the Company in proportion to their respective shareholdings.
- (iv) Pursuant to the listing on the GEM on 6 August 2002, the Company issued 60,000,000 shares of HK\$0.01 each at HK\$0.50 per share to the public by way of Placing.

Notes to Financial Statements

30 June 2002

22. RESERVES

Group	Capital reserve	Accumulated losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 July 2000	17,590	(18,459)	(869)
Profit for the year	—	847	847
At 30 June 2001 and 1 July 2001	17,590	(17,612)	(22)
Profit for the year	—	1,437	1,437
At 30 June 2002	<u>17,590*</u>	<u>(16,175)</u>	<u>1,415</u>

* The capital reserve of the Group represents the following:

- (i) the difference between the aggregate nominal value of the share capital of subsidiaries acquired by the Company and the nominal value of the share capital of the Company issued as consideration in exchange therefor (note 21(ii)) of HK\$157,000; and
- (ii) the surplus of HK\$17,433,000 arising from allotment and issue of 15,000 shares of US\$1 each of B&S BVI, credited as fully paid to set off against the loans of HK\$17,550,000 owing to the executive directors pursuant to the Group Reorganisation as set out in notes 19 and 21 to the financial statements and in the Prospectus dated 29 July 2002.

23. NOTES TO PRO FORMA COMBINED CASH FLOW STATEMENT

Reconciliation of profit from operating activities to net cash inflow from operating activities

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Profit from operating activities	1,493	944
Interest income	—	(2)
Depreciation	116	159
Decrease in film rights and films in progress	972	10,781
Decrease in inventories	3	282
Increase in accounts receivable	(128)	(119)
Decrease/(increase) in prepayments, deposits and other receivables	1,227	(4,411)
Increase/(decrease) in deposits received	23	(700)
Decrease in accounts payable	(199)	(97)
Increase in accrued liabilities and other payables	598	321
Increase in an amount due to a related company	1,320	1,556
Decrease in an amount due to a director	(5,324)	(8,539)
	<hr/>	<hr/>
Net cash inflow from operating activities	101	175
	<hr/> <hr/>	<hr/> <hr/>

24. CONTINGENT LIABILITIES

At the balance sheet date, neither the Group, nor the Company had any significant contingent liabilities.

Notes to Financial Statements

30 June 2002

25. OPERATING LEASE ARRANGEMENTS

The Group leases its office property under an operating lease arrangement which is negotiated for a term of three years.

The total future minimum lease payments under the non-cancellable operating lease as at the balance sheet date fall due is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Within one year	168	—
In the second to fifth years, inclusive	266	—
	<u>434</u>	<u>—</u>

Save as aforesaid, the Group did not have any other commitments at 30 June 2002.

At 30 June 2002, the Company had no significant commitments.

26. SUBSIDIARIES

Particulars of the subsidiaries which were acquired pursuant to the Group Reorganisation are set out below:

	Place of incorporation and operations	Issued and paid-up share capital	Percentage of equity attributable to the Group	Principal activities
B & S Group Limited	British Virgin Islands	US\$30,000 ordinary	100*	Investment holding
Best Faith (Hong Kong) Limited (Trading as B & S Films Creation Works House)	Hong Kong	HK\$3,000 ordinary	100	Production and sale of videos and films, and licensing of videos and copyrights /film rights
B & S Films Production Limited	Hong Kong	HK\$10,000 ordinary	100	Production of videos and films
B & S Films Distribution Company Limited	Hong Kong	HK\$10,000 ordinary	100	Distribution of videos and copyrights/film rights, and the provision of agency services
Fleur Group Limited	British Virgin Islands	US\$15,000 ordinary	100	Holding of copyrights

* Shares held directly by the Company

27. POST BALANCE SHEET EVENTS

In addition to the matters set out in notes 18, 19, 20 and 21 to the financial statements, subsequent to the balance sheet date, the shares of the Company were listed on the GEM on 6 August 2002. On that date, the Company placed 60,000,000 shares of HK\$0.01 each upon the Listing of its shares on the GEM, at HK\$0.50 per share for a total cash consideration, before related issuing expenses of approximately HK\$6 million, of HK\$30 million.

Notes to Financial Statements

30 June 2002

27. POST BALANCE SHEET EVENTS (Cont'd)

A condensed pro forma adjusted combined net asset statement of the Group as at 30 June 2002 is based on the audited net assets of the Group as at 30 June 2002 and adjusted as if the listing of the Company's shares had taken place on 30 June 2002, is presented below:

	Adjusted pro forma combined net assets 30 June 2002 HK\$'000	Placing of shares HK\$'000	Adjusted pro forma combined net assets 30 June 2002 HK\$'000
Non-current assets	2,093	—	2,093
Current assets	12,359	24,000	36,359
Current liabilities	(12,937)	—	(12,937)
Net current assets/(liabilities)	(578)	24,000	23,422
Net assets	1,515	24,000	25,515
Capital	100	3,900	4,000
Reserves	1,415	20,100	21,515
	1,515	24,000	25,515

28. RELATED PARTY TRANSACTIONS

Other than disclosed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	2002 HK\$'000	2001 HK\$'000
Lightal Limited:			
Management fee paid	(i)	2,640	2,640
Operating lease rentals in respect of land and buildings	(ii)	168	168
Asia United Trading Limited:			
Licensing income received	(iii)	—	820

Notes:

- (i) The management fee was paid for back-office support, including administrative and accounting services and distribution and promotion activities, provided by Lightal Limited and was charged by reference to the actual costs incurred. The directors of the Company have confirmed that the transactions ceased after 6 August 2002 when shares of the Company were listed on the GEM.
- (ii) The office rental expense was determined with reference to the prevailing market value.
- (iii) The licensing income related to film rights sold and were made at prices mutually agreed between the parties. The directors of the Company have confirmed that the transactions ceased after 1 July 2001.

In the opinion of the directors of the Company, the above related party transactions were entered into by the Group in the ordinary course of business.

29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 September 2002.

Financial Summary

The following is a summary of the pro forma combined results and of the assets and liabilities of the Group, prepared on the basis set out in notes 1 and 2 below:

RESULTS

	Year ended 30 June		
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
TURNOVER	23,872	28,267	23,472
Cost of sales	(17,337)	(21,969)	(19,463)
Gross profit	6,535	6,298	4,009
Other income	284	19	2
Selling and distribution costs	(1,395)	(1,362)	(1,830)
Administrative expenses	(3,931)	(4,011)	(4,148)
Other operating expenses	—	—	(995)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	1,493	944	(2,962)
Finance costs	(38)	(52)	(55)
PROFIT/(LOSS) BEFORE TAX	1,455	892	(3,017)
Tax	(18)	(45)	(70)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	1,437	847	(3,087)

ASSETS AND LIABILITIES

	2002	30 June	
	<i>HK\$'000</i>	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets	2,093	206	274
Current assets	12,359	16,484	24,563
Current liabilities	12,937	16,612	25,606
Net current liabilities	(578)	(128)	(1,043)
	1,515	78	(769)

Notes:

1. The summary of combined results of the Group includes the results of the companies now comprising the Group as if the current Group structure had been in existence throughout the financial periods, or from the respective dates of incorporation of the companies where this is a shorter period, and is presented on the basis set out in note 3 to the financial statements. The pro forma combined results of the Group for the year ended 30 June 2002 are also set out on page 24 of the audited financial statements.
2. The only published combined balance sheets of the Group that have been prepared to date are those as at 30 June 2000 and 2001 and 31 December 2001. The combined balance sheets as at 30 June 2000 and 2001 have been extracted from the published financial information of the Company prepared for the purpose of the listing of the Company's Shares on the GEM of the Exchange after incorporating the effect of the capitalisation of HK\$17,550,000 due to a Director as detailed in note 19 to the financial statements. The pro forma combined balance sheet as at 30 June 2002 is set out on page 25 of the audited financial statements.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the annual general meeting (the “Annual General Meeting”) of B&S Entertainment Holdings Limited (the “Company”) will be held at Boardroom I, Grand Hyatt Hong Kong, 1 Harbour Road, Hong Kong on 6 November 2002 at 4:00 p.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors of the Company (“Directors”) and auditors of the Company for the year ended 30 June 2002.
2. To re-elect the retiring Directors and to authorise the board of Directors (“Board”) to fix their remuneration.
3. To re-appoint auditors and to authorise the Board to fix their remuneration.
4. As special business, to consider and if thought fit, pass the following resolution as an ordinary resolution:

“THAT

- (a) subject to paragraph (c) of this resolution, and pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market (“GEM Listing Rules”) of The Stock Exchange of Hong Kong Limited (the “Exchange”), the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the share capital of the Company, and to make or grant offers, agreements and options which would or might require the exercise of such powers, be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

- (c) the aggregate nominal amount of the share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraph (a) of this resolution, otherwise than by way of (i) a Rights Issue (as hereinafter defined); or (ii) the exercise of any option under any share option scheme of the Company or similar arrangement for the time being adopted for the issue or grant to officers and/or employees of the Company and/or any of its subsidiaries and/or other eligible persons of shares or rights to acquire shares of the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares in accordance with the articles of association of the Company in force from time to time, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution and the said approval shall be limited accordingly; and
- (d) for the purpose of this resolution:
 - (aa) "Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held; or
 - (iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting.

Notice of Annual General Meeting

(bb) “Rights Issue” means an offer of shares or other securities of the Company open for a period fixed by the Directors to holders of shares of the Company or any class thereof on the register on a fixed record date in proportion to their then holdings of such shares or class thereof (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside the Hong Kong Special Administrative Region of the People’s Republic of China).”

5. As special business, to consider and if thought fit, pass the following resolution as an ordinary resolution:

“THAT

- (a) subject to paragraph (b) of this resolution, the exercise by the Directors during the Relevant Period (as defined in resolution 4(d)(aa)) of all the powers of the Company to repurchase its own shares on the Growth Enterprise Market of the Exchange or any other stock exchange on which the shares of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Exchange for such purpose, subject to and in accordance with all applicable laws and the requirements of the GEM Listing Rules (as amended from time to time) or any other stock exchange, be and is hereby generally and unconditionally approved and authorised;

- (b) the aggregate nominal amount of the shares of the Company to be repurchased by the Company pursuant to the approval in paragraph (a) of this resolution during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution and the said approval shall be limited accordingly; and
 - (c) for the purpose of this resolution, "Relevant Period" shall have the same meaning as in resolution 4(d)(aa)."
6. As special business, to consider and if thought fit, pass the following resolution as an ordinary resolution:

"THAT

conditional upon resolutions No. 4 and 5 above being passed, the general mandate granted to the Directors to allot, issue or otherwise deal with additional shares pursuant to resolution No. 4 be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of shares repurchased by the Company under the authority granted pursuant to resolution No. 5."

By Order of the Board
Siu Luen Fat
Chairman

Hong Kong, 30 September 2002

Notice of Annual General Meeting

Notes:

1. Any member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a member of the Company. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. In order to be valid, the form of proxy, together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be lodged with the Company's branch share registrar in Hong Kong, Tengis Limited at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong for registration by not less than 48 hours before the time appointed for holding the Annual General Meeting or any adjournment thereof.
3. A circular containing further details regarding the proposed resolution numbered 5 above will be dispatched to shareholders together with the 2002 Annual Report of the Company.