



**B&S**  
**ENTERTAINMENT HOLDINGS LIMITED**

中大娛樂控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**Interim Report 2002 - 2003**

## **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.**

*The Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.*

*This report, for which the directors (the “Directors”) of B&S Entertainment Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Exchange (“GEM Listing Rules”) for the purpose of giving information with regard to B&S Entertainment Holdings Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material aspects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## HALF-YEAR RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2002 (UNAUDITED)

The board (the "Board") of directors (the "Directors") of B&S Entertainment Holdings Limited (the "Company") is pleased to announce the unaudited half-year combined results of the Company and its subsidiaries (the "Group") for the six months ended 31 December 2002 together with comparative audited figures for the corresponding period of 2001 as follows. The condensed combined interim financial statements was not audited but have been reviewed by the audit committee of the Company.

### UNAUDITED CONDENSED COMBINED INCOME STATEMENT

	Notes	For the three months ended 31 December		For the six months ended 31 December	
		2002 (unaudited) HK\$'000	2001 (unaudited) HK\$'000	2002 (unaudited) HK\$'000	2001 (audited) HK\$'000
TURNOVER	3	7,609	9,270	13,216	12,711
Cost of sales		(4,421)	(7,212)	(7,955)	(9,641)
Gross profit		3,188	2,058	5,261	3,070
Other income	3	19	—	49	1
Selling and distribution costs		(732)	(301)	(1,382)	(585)
Administrative expenses		(1,455)	(929)	(2,784)	(1,797)
PROFIT FROM OPERATING ACTIVITIES	4	1,020	828	1,144	689
Finance costs	5	(87)	(13)	(93)	(24)
PROFIT BEFORE TAX		933	815	1,051	665
Tax	6	(3)	(18)	(13)	(18)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		930	797	1,038	647
EARNINGS PER SHARE	7				
Basic		0.23 cent	0.23 cent	0.27 cent	0.19 cent
Diluted		N/A	N/A	N/A	N/A

## CONDENSED COMBINED BALANCE SHEET

	Notes	31 December 2002 (unaudited) HK\$'000	30 June 2002 (audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	9	63	93
Prepayments		5,000	2,000
Film rights – sub-licensing	10	4,125	—
		<u>9,188</u>	<u>2,093</u>
<b>CURRENT ASSETS</b>			
Film rights and films in progress	11	13,596	6,923
Inventories	12	3	—
Accounts receivable	13	1,118	330
Prepayments, deposits and other receivables		16,801	5,026
Pledged bank deposits	16	10,000	—
Cash and bank balances		382	80
		<u>41,900</u>	<u>12,359</u>
<b>CURRENT LIABILITIES</b>			
Deposits received		788	493
Accounts payable	14	78	30
Accrued liabilities and other payables		1,059	1,072
Tax payable		—	10
Due to a related company		—	1,320
Due to a director	15	—	9,617
Bank overdrafts, secured	16	13,637	395
		<u>15,562</u>	<u>12,937</u>
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<u>26,338</u>	<u>(578)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>35,526</u>	<u>1,515</u>
<b>NON-CURRENT LIABILITIES</b>			
Due to a director	15	9,046	—
<b>NET ASSETS</b>		<u>26,480</u>	<u>1,515</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	17	4,000	100
Reserves		22,480	1,415
<b>SHAREHOLDERS' FUNDS</b>		<u>26,480</u>	<u>1,515</u>

## CONDENSED COMBINED CASH FLOW STATEMENT

	For the six months ended 31 December	
	2002 <i>(unaudited)</i> HK\$'000	2001 <i>(unaudited)</i> HK\$'000
NET CASH (OUTFLOW) / INFLOW FROM OPERATING ACTIVITIES	(22,155)	173
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(4,712)	(4)
NET CASH INFLOW / (OUTFLOW) FROM FINANCING ACTIVITIES	23,927	(24)
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(2,940)	145
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	(315)	(326)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	(3,255)	(181)
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Pledged bank deposits	10,000	—
Cash and bank balances	382	307
Bank overdrafts, secured	(13,637)	(488)
	(3,255)	(181)

## UNAUDITED CONDENSED COMBINED STATEMENT OF MOVEMENTS IN EQUITY

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July 2001	—	17,590	(17,612)	(22)
Profit for the period	—	—	647	647
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2001	—	17,590	(16,965)	625
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 1 July 2002	—	17,590	(16,175)	1,415
Premium on issuance of shares	29,400	—	—	29,400
Capitalisation issue	(3,300)	—	—	(3,300)
Share issuance expenses	(6,073)	—	—	(6,073)
Profit for the period	—	—	1,038	1,038
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2002	20,027	17,590	(15,137)	22,480
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The capital reserve of the Group represents the followings:

- (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 of HK\$157,000; and
- (ii) the surplus of HK\$17,433,000 arising from allotment and issuance of 15,000 shares of US\$1 each of B & S Group Limited, credited as fully paid to set off against loans of HK\$17,550,000 owing to the Executive Directors pursuant to the group reorganisation as set out in the Company's prospectus (the "Prospectus") dated 29 July 2002.

Notes:

**1. Group reorganisation and basis of presentation**

**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 a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of its shares on the GEM of the Exchange on 6 August 2002, the Company became the holding company of the companies now comprising the Group on 22 July 2002. Further details of the Group Reorganisation are set out in the Prospectus.

**Basis of presentation**

The Group Reorganisation has been accounted for by the Company using the merger accounting method in accordance with the Statement of Standard Accounting Practice ("SSAP") No. 2.127 "Accounting for Group Reconstructions". The unaudited condensed combined financial statements of the Group included the results of all companies now comprising the Group as if the current group structure had been in existence throughout the periods covered by this report or since their respective dates of incorporation, where this is a shorter period.

All significant transactions and balances among the companies comprising the Group have been eliminated on combination. The unaudited condensed combined financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong. They have been prepared under the historical cost convention.

## 2. Significant accounting policies

The accounting policies and basis of preparation adopted for the preparation of the interim financial report are consistent with those adopted by the Group in its annual financial statements for the year ended 30 June 2002, except that the Group has adopted certain revised or new issued SSAPs which are effective for accounting periods commencing on or after 1 January 2002. These SSAPs prescribe new accounting measurement and disclosure practices. The effects on the Group's accounting policies and on the amounts disclosed in these financial statements are not significant.

Comparative amounts for the prior period have been restated to conform with the current period's presentation.

The unaudited condensed combined financial statements have been prepared in accordance with Statement of Standard Accounting Practice 25 "Interim Financial Reporting" and the applicable disclosure requirements of the Rules Governing the Listing of Securities on GEM of the Exchange.



### 3. Turnover, revenues and segment information

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:

	For the six months ended 31 December	
	2002 HK\$'000	2001 HK\$'000
<b>Turnover</b>		
Licensing of film rights	13,180	8,802
Sub-licensing of film rights	—	3,900
Sale of videos and video compact discs	36	9
	<b>13,216</b>	<b>12,711</b>
<b>Other revenue</b>		
Interest income	18	—
Other	31	1
	<b>49</b>	<b>1</b>
	<b>13,265</b>	<b>12,712</b>

#### Segment information

The Group's turnover were analysed by principal activity and geographical area as follows:

	For the six months ended 31 December	
	2002 HK\$'000	2001 HK\$'000
<b>By activity:</b>		
Film licensing and sub-licensing	13,180	12,702
Sale of video and video compact discs	36	9
Other revenue	49	1
	<b>13,265</b>	<b>12,712</b>
<b>By geographical area:</b>		
Hong Kong	1,820	5,343
The People's Republic of China (the "PRC")	4,832	5,120
Asia other than Hong Kong and the PRC	6,088	1,281
Others	525	968
	<b>13,265</b>	<b>12,712</b>

The Group's segment results were analysed by principal activity and geographical area as follows:

	<b>For the six months ended 31 December</b>	
	<b>2002</b>	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
By activity:		
Film licensing and sub-licensing	<b>1,156</b>	696
Sale of video and video compact discs	<b>(12)</b>	(7)
	<b>1,144</b>	689
Finance costs	<b>(93)</b>	(24)
Profit before tax	<b>1,051</b>	665
Tax	<b>(13)</b>	(18)
Net profit from ordinary activities attributable to shareholders	<b>1,038</b>	647
By geographical area:		
Hong Kong	<b>182</b>	(179)
The People's Republic of China (the "PRC")	<b>406</b>	603
Asia other than Hong Kong and the PRC	<b>512</b>	151
Others	<b>44</b>	114
	<b>1,144</b>	689

#### 4. Profit from operating activities

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

	For the three months ended 31 December		For the six months ended 31 December	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Cost of film and sub-licensing rights*	4,405	7,196	7,918	9,625
Cost of inventories sold	16	16	37	16
Depreciation	18	51	35	81
Minimum lease payments under operating leases of land and building	42	42	84	84
Staff costs including directors' emoluments	857	114	1,598	226
	<u>87</u>	<u>13</u>	<u>93</u>	<u>24</u>

\* The cost of film and sub-licensing rights for the period has been included in cost of sales in the condensed combined income statement.

#### 5. Finance costs

	For the three months ended 31 December		For the six months ended 31 December	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Interest on bank overdrafts wholly repayable within one year	87	13	93	24
	<u>87</u>	<u>13</u>	<u>93</u>	<u>24</u>

#### 6. Tax

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong for the period under review of the individual companies within the Group.

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

## **7. Earnings per share**

The basic earnings per share for the three months and six months ended 31 December 2002 are calculated based on the unaudited combined net profit from ordinary activities attributable to shareholders of the Company for the three months and six months ended 31 December 2002 of approximately HK\$930,000 and HK\$1,038,000 respectively (2001: approximately HK\$797,000 and HK\$647,000 respectively) and on a weighted average number of approximately 400,000,000 shares and 389,565,217 shares respectively (2001: 340,000,000 shares and 340,000,000 shares respectively) deemed to have been issued and issuable during the period under review 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 2001.

Diluted earnings per share for the three months and six months ended 31 December 2002 and 2001 has not been disclosed as no diluting event existed during these periods.

## **8. Dividends**

The Directors do not recommend the payment of an interim dividend for the six months ended 31 December 2002 (2001: Nil).

## 9. 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 1 July 2002	120	188	332	640
Additions	—	—	5	5
At 31 December 2002	120	188	337	645
Accumulated depreciation:				
At 1 July 2002	113	150	284	547
Provided during the period	3	14	18	35
At 31 December 2002	116	164	302	582
Net book value:				
At 31 December 2002	4	24	35	63
At 30 June 2002	7	38	48	93

## 10. Film rights – Sub-license

	31 December 2002 <i>HK\$'000</i>	30 June 2002 <i>HK\$'000</i>
Additions	4,725	—
Less : Current portion	(600)	—
Non-current portion	4,125	—

11. Film rights and films in progress

	31 December 2002 <i>HK\$'000</i>	30 June 2002 <i>HK\$'000</i>
Film rights	5,842	4,756
Films in progress	7,154	2,167
Sub-license film rights		
– Current portion	600	—
	<u>13,596</u>	<u>6,923</u>

12. Inventories

No inventories were stated at net realisable value at 31 December 2002.

13. Accounts receivable

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

	31 December 2002 <i>HK\$'000</i>	30 June 2002 <i>HK\$'000</i>
Within 30 days	621	101
Between 31 to 60 days	150	81
Between 61 to 90 days	100	—
Over 90 days	247	148
	<u>1,118</u>	<u>330</u>

#### 14. Accounts payable

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

	<b>31 December 2002 HK\$'000</b>	30 June 2002 HK\$'000
Within 30 days	60	8
Between 31 to 60 days	8	13
Between 61 to 90 days	10	9
Over 90 days	—	—
	<hr/>	<hr/>
	<b>78</b>	<b>30</b>
	<hr/> <hr/>	<hr/> <hr/>

#### 15. 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 of 15,000 shares of US\$1 each issued by B & S Group Limited, 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 and the Prospectus.

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.

## 16. Bank overdrafts, secured

The bank overdrafts were secured by corporate guarantees from the Company and pledge of the Group's bank deposits of HK\$10 million (2001: Nil).

## 17. Share capital

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

	Notes	Number of ordinary shares of HK\$0.01 each	Value HK\$
Authorised:			
On incorporation, at 30 June 2002 and at 31 December 2002	17(i)	<u>3,000,000,000</u>	<u>30,000,000</u>
Issued and fully paid:			
Allotted and issued at par On acquisition of B & S Group Limited consideration share issues credited as fully paid	17(i) 17(ii)	15,000 9,985,000	150 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	17(iii)	<u>330,000,000</u>	<u>—</u>
Pro forma share capital of the Group at 30 June 2002		340,000,000	100,000
Capitalisation of the share premium account as set out above	17(iii)	—	3,300,000
New issue of shares	17(iv)	<u>60,000,000</u>	<u>600,000</u>
At 31 December 2002		<u>400,000,000</u>	<u>4,000,000</u>



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 this 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 Group Limited 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 share placement (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 the Placing.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

During the period under review, the Group was principally engaged in the production of movies and distribution of copyright/film rights in respect of movies produced by the Group to overseas countries and in Hong Kong. The Group has launched 13 digital video ("DV") format movies to the market, the number of which is same as that launched in the whole of last year. Despite the weak economy and the downturn in consumer confidence, the Group has grasped the chance to enlarge its film production subcontractor base and to improve the casting and quality of the movies at a more price competitive term.

The Group has entered into several contracts with an independent film production company for the production of a number of DV format and 35mm format movies which are expected to be completed in the next three years. Several new film production subcontractors have been engaged during the period under review to enhance the quality (including provision of necessary equipment and technologies for digital filming) and to stabilize the quantity of the films produced by the Group. These aim to increase the Group's market share in the DV format movies and to enrich the contents and range of the Group's film library.

To cope with the market demand, the Group has resumed the business of sub-licensing of film rights by entering into licensing agreement with an independent third party. These license fees paid will be amortised on a systematic basis over the underlying license periods, with reference to projected revenues.

For the period under review, the Group's turnover slightly increased to approximately HK\$13.2 million as compared to approximately HK\$12.7 million in the previous period, representing an increase of around 4.0%. 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\$3.9 million and an increase in the revenue from licensing of film rights by around HK\$4.4 million. During the period, the Group focused in the production of movies and the distribution of the copyright/film rights. The Group has launched 13 DV format movies to the market. Revenues generated in Hong Kong decreased by about HK\$3.5 million in line with drop in sub-licensing income of film rights.

The gross profit margin of the Group was approximately 39.8%, representing an increase of approximately 2.8% and 15.6% as compared to that of the first quarter this year and corresponding previous period respectively. The significant improvement in gross profit margin from licensing of film rights was due to higher quality movies with better casting, which in turn generated higher revenue and increase in revenue from licensing of film rights, for which the film cost was fully amortised, to East Asia.

Administrative expenses for the six months under review increased to approximately HK\$2.8 million as compared to approximately HK\$1.8 million in the corresponding period of last year. Such increase was mainly due to the additional routine and mandatory expenses after the shares of the Company were listed on the GEM of the Exchange in August 2002 and an increase in staff costs. With the increase in number of digital movie launched during the period and surge in revenue from licensing of film rights, selling and distribution costs of them were increased to approximately HK\$1.4 million from about HK\$0.6 million for the same period in the previous year. These were mainly comprised of commission paid to distributors and distribution fee paid to media companies.

Due to the net effect of the above, the net profit from ordinary activities attributable to shareholders of the Company, therefore increased, for the two periods under comparison, from about HK\$0.6 million to about HK\$1.0 million while the net profit margin also increased from about 5.1% to about 7.9%.

### **Outlook**

With over ten DV format films in progress, the Group will maintain the film production of DV format movies at current level. It is expected a 35mm format movie will be launched in the second half of the year. With our experience in the DV format movie production, strength 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 capture a greater share of the DV film market and 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.

## COMPARISON BETWEEN PLANNED BUSINESS OBJECTIVES AS STATED IN THE PROSPECTUS AND ACTUAL BUSINESS PROGRESS FOR THE PERIOD FROM 22 JULY 2002 TO 31 DECEMBER 2002

### Proposed plans as stated in the Prospectus

1. Enhancement of production equipment
  - a. Procure production equipment including digital video cameras and sound recording equipment with the latest slow and fast motions capabilities technologies at relevant time
  - b. Carry out feasibilities study for the procurement of advanced films editing machines which are capable for the creation of multiple version of film's master as well as moving certain part of a movie from one location to another location within a short time
2. Improvement of the cast quality of movies
  - a. Commence to employ additional cast on project basis for the Group's movies to be produced

### Actual progress

- a. not yet implemented as the Group has adopted the expansion strategy of engaging new production sub-contractors with advanced production equipment and movie technology
- b. carried out feasibilities studies and concluded that the films editing machines would not suite the Group's production needs in view of the cost, performance, and the Group's present filming technology requirements
- a. implemented as planned

3. Sales and marketing
    - a. Continue to attend tradeshows and film festivals
    - b. Expand sales and distribution teams
    - c. Commence to build up network for distribution in cable television channel
    - d. Explore the opportunity to open the market for the distribution of the copyright/film rights in respect of the Group's movies to Europe
  4. Development and training of human resources
    - a. Set up training department and recruit staff responsible for the provision of training
  5. Enhancement of broadcasting in cinemas and development of new business
    - a. Commence negotiation with a number of cinemas in Hong Kong for installation of equipment capable of broadcasting of DV format movies
- a. attended various tradeshows and films festivals
  - b. no new staff has yet employed as lack of suitable candidate with relevant experience
  - c. concluded a licensing contract with a satellite television channel
  - d. discussed with several distributors through tradeshows to explore co-operation opportunity, no agreement has yet been reached
  - a. not yet implemented as the Group has adopted the expansion strategy by engaging new production sub-contractors with quality staff, production crews and actors/actresses
  - a. negotiated with cinemas in Hong Kong but without significant progress as the cooperation terms were not favorable to the Group

## USE OF PROCEEDS FROM ISSUANCE OF NEW SHARES

The actual net proceeds from issuance of new shares in August 2002 was around HK\$24 million which is equal to the estimate as stated in the Prospectus dated 29 July 2002. Details of the utilization of fundings from the actual net proceeds of issuance of new shares versus that envisaged in the Prospectus are as follows:-

	Proposed application of total fundings from net proceeds HK\$'million	Proposed application of fundings during the period HK\$'million	Actual fundings utilised during the period HK\$'million	Notes
Enhancement of production equipment	5.5	0.7	—	(i)
Improvement of the cast quality of movies	2.5	0.3	0.3	
Sales and marketing	4.5	0.5	0.4	
Development and training of human resources	3.0	0.5	—	(i)
Enhancement of broadcasting in cinemas and development of new business	4.5	1.0	—	(ii)
<b>Total</b>	<b>20.0</b>	<b>3.0</b>	<b>0.7</b>	

### Notes

- (i) The Group has adopted the expansion strategy by engaging new production sub-contractors with advanced production equipment, movie technology, quality staff, production crews and actors/actresses, the funds for enhancement of production equipment and training of human resources have not been applied.
- (ii) The Group has negotiated with cinemas in Hong Kong but without significant progress.

During the period ended 31 December 2002, in response to the rapid changes in market conditions and opportunities, the Group has entered into several contracts with independent film production companies to enlarge the Group's production base of both DV format and 35mm format movies. These contracts were financed by the net proceeds from the issuance of new shares.

## Financial Position

For the period under review, the Group mainly financed its operations with its internally generated resources, net proceeds from issuance of new shares, advance from a Director and bank overdraft facilities provided by its bankers in Hong Kong.

As at 31 December 2002, the Group had total current assets of approximately HK\$41.9 million (As at 30 June 2002: HK\$12.4 million), including cash and bank balances of approximately HK\$10.4 million (As at 30 June 2002: HK\$0.1 million), film rights and films in progress of approximately HK\$13.6 million (As at 30 June 2002: HK\$6.9 million) and prepayment, deposits and other receivables of approximately HK\$16.8 million (As at 30 June 2002: HK\$5.0 million). The Group has aggregate outstanding borrowings of approximately HK\$22.7 million (As at 30 June 2002: HK\$10 million). It comprised of bank overdrafts of approximately HK\$13.6 million (As at 30 June 2002: HK\$0.4 million) and advances due to a Director of approximately HK\$9.0 million (As at 30 June 2002: HK\$9.6 million), which was after the debt capitalisation of HK\$17.55 million pursuant to the Group Reorganisation.

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

## Gearing Ratio

The gearing ratio, representing borrowings divided by shareholders equity, was about 0.86 as at 31 December 2002 (As at 30 June 2002: 6.61). The significant decrease in the gearing ratio was due to the improvement in the shareholders equity resulting from the listing of the Company in August 2002 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 31 December 2002 and 30 June 2002, the Group did not have outstanding hedging instruments.

The Group continues to adopt a conservative treasury policy with all bank deposits and overdrafts 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 has pledged bank deposit of HK\$10 million to its bankers for banking facilities granted (As at 30 June 2002: Nil).

## **Contingent Liabilities**

As at 31 December 2002 and 30 June 2002, 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 six months ended 31 December 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 31 December 2002.

## **Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies**

Apart from the Group Reorganisation to rationalise the structure of the Group in preparation for listing of the Company's 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 period (2001: Nil).



## Employees

As at 31 December 2002, the Group had 13 full-time staff (As at 30 June 2002: 12). The total of employee remuneration, including that of the directors, for the period under review and corresponding period of last year amounted respectively to about HK\$1,598,000 and HK\$226,000. 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 Company's ordinary shares. At the date of this report, no share options were granted under the share option scheme.

## DIRECTORS' INTERESTS IN SHARES

As at 31 December 2002, 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") or as otherwise notified to the Company and the Exchange pursuant to the minimum standards of dealing by directors of listed issuer as referred to in Rule 5.40 of the GEM Listing Rules, were set out below:

Name of Director	Corporate interest	Percentage of shareholding
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 had 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 as at 31 December 2002.

## **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 Company's placing, 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 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.

No share option has been granted by the Company under the Scheme up to the date of this report.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2002, 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, as at 31 December 2002, 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

Kim Eng Capital (Hong Kong) Limited (the "Sponsor") has confirmed that, as at 31 December 2002, to its best knowledge, none of the Sponsor or its associates, directors or employees have or may 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 Company's shares on the GEM of the Exchange) to 30 June 2005.

## **COMPETITION AND CONFLICT OF INTERESTS**

None of the Directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has 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.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES**

The Company's 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.

## **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 Company's 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 unaudited results for the six months ended 31 December 2002 have been reviewed by the audit committee, who was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

By order of the Board  
**Siu Luen Fat**  
*Chairman*

Hong Kong, 13 February 2003