



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 2003

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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

CITIC Ka Wah 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
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
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 am pleased to present to the shareholders of the Company (the "Shareholders") the annual results of the Company and its subsidiaries (the "Group") for the year ended 30 June 2003.

FINANCIAL RESULT

For the year ended 30 June 2003, the Group's net profit attributable to Shareholders was approximately HK\$2.06 million as compared to approximately HK\$1.44 million in the previous year, representing an increase of around 43%. Turnover increased from approximately HK\$23.9 million in the previous year to approximately HK\$28.0 million this year, representing an increase of around 17%.

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 2003.

OVERVIEW

For the past twelve months, the Group has launched 25 DV format movies to the market. They were Troublesome Night 15, Modern Cinderella, Dizzy Date, Troublesome Night 16, Dumbly Agent, The Troublesome Romance, The Untold Story - Sudden Vanished, Love in Garden Street, Prison on Fire - Preacher, Memento, Troublesome Night 17, 45 Days Lover, The Untold Story - The Lost World, Sai Kung Story, Seamy Side of Life II - Crying Stars, Unarm 72 Hours, Troublesome Night 18, Get The Murderer, The Two Individual Package Women, The Secret Society - Boss, A Tragic Room, The Secret Society - The Best Hack, The Trouble-Makers, Holy Terror In The Village and Troublesome Night 19.

One 35mm format movie, I Want to Get Married, which was performed by Ms. Kristy Yang, was launched to the market in May 2003.

For this fiscal year, owing to the economic downturn as well as the outbreak of SARS in early 2003, the Hong Kong economy was weakened in the same period. Fortunately, the Group recorded a satisfactory growth in both turnover and profit under such circumstances, thanks to our active market development in the overseas market in 2003. During the year, the Group has commenced cooperation with several distributing companies in the PRC and has achieved satisfactory progress in the area of television and home video market.

Chairman's Statement

Up till now, we have maintained a film library of over 90 films and this will benefit the Group in further film distribution to the newly established Pay TV channels in Hong Kong. In fact, during the said period, the Group has successfully concluded several film rights licensing contracts to those newly established Pay TV channels.

PROSPECTS

As more digital cinemas have been put into business in the PRC, more digital films distributed from the Group will be shown in them. We will put into more efforts in the development of market share of digital films.

We foresee that the economy of the PRC will grow continuously and its policies will become more open after it has entered into the WTO. As such, under the effect of beneficial policies to be implemented in the coming year and the growing demand from PRC people on films other than those local ones, we expect that we will have more benefit from the areas of cinema, home video, pay and non-pay TV.

The Group will maintain the film production of digital format movies at current level. 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.

APPRECIATION

On behalf of the Board, 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, 25 September 2003

Management Discussion and Analysis

OPERATION REVIEW

During the year 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 25 digital video ("DV") format movies, the number of which is nearly double when compared with 13 DV format movies 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. Several new film production subcontractors have been engaged during the year 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 year under review, the Group's turnover increased to approximately HK\$28.0 million as compared to approximately HK\$23.9 million in the previous period, representing an increase of around 17%. The increase 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\$7.7 million. During the year, the Group focused in the production of movies and the distribution of the copyright/film rights. The Group has launched 25 DV format and one 35mm format movies to the market during the year under review. Revenues generated in Hong Kong decreased by about HK\$3.3 million in line with drop in sub-licensing income of film rights. Due to the impact of SARS, revenues generated from elsewhere in the PRC decreased by about HK\$5.2 million. The Group continued to experience substantial growth in revenues in other geographical areas.

Management Discussion and Analysis

The gross profit margin of the Group was approximately 39% for the year under review, representing an increase of approximately 12% as compared to that of previous year. The significant improvement in gross profit margin 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 distributors in East Asia and other geographical areas. The gross profit margin for 35 mm format movies maintained at the same level as last year of about 10% while that for DV format movies improved from approximately 34% of last year to 42% during the year.

Administrative expenses for the year under review increased to approximately HK\$5.5 million as compared to approximately HK\$3.9 million in the last year. Such increase was mainly due to the additional routine and mandatory expenses after the listing of the shares of the Company on GEM in August 2002 and an increase in staff costs. With the increase in number of digital movie launched during the year and surge in revenue from licensing of film rights, selling and distribution costs of them were increased to approximately HK\$3.0 million from about HK\$1.4 million of last year. These were mainly comprised of commission paid to distributors of approximately HK\$1.1 million and distribution fee paid to media companies of approximately HK\$1.1 million.

Due to the net effect of the above, the net profit from ordinary activities attributable to Shareholders, therefore increased, for the two years under comparison, from about HK\$1.4 million to about HK\$2.1 million while the net profit margin also increased from about 6.0% to about 7.4%.

COMPARISON BETWEEN PLANNED BUSINESS OBJECTIVES AS STATED IN THE PROSPECTUS OF THE COMPANY DATED 29 JULY 2002 (THE "PROSPECTUS") AND ACTUAL BUSINESS PROGRESS FOR THE PERIOD FROM 1 JANUARY 2003 TO 30 JUNE 2003

Proposed plans as stated in the Prospectus	Actual progress
<p>1. Enhancement of production equipment</p> <p>a. Continue to expand the production capacity of the Group by procurement of production equipment which process capability of providing slow and fast technologies at the relevant time</p> <p>b. Procure additional film editing machines</p>	<p>a. not yet implemented as the Group has adopted the strategy of engaging new production sub-contractors with up-to-date production equipment and movie technology</p> <p>b. not yet proceeded as feasibility studies concluded that these film editing machines would not suite the Group's production needs in view of the cost, performance, and the Group's present filming technology requirements</p>
<p>2. Improvement of the cast quality of movies</p> <p>a. Continue to employ additional cast on project basis for the Group's movies to be produced</p>	<p>a. implemented as planned</p>

Management Discussion and Analysis

Proposed plans as stated in the Prospectus	Actual progress
<p>3. Sales and marketing</p> <p>a. Continue to attend tradeshows and film festivals</p> <p>b. Explore the opportunity to open the market for the distribution of the copyright/film rights in respect of the Group's movies to non-Chinese community in North America</p> <p>c. Begin to distribute the copyright/film rights in respect of the Group's movies to Europe</p> <p>d. Continue to expand the network for distribution in cable television channel</p>	<p>a. attended various tradeshows and films festivals</p> <p>b. not yet implemented</p> <p>c. discussed with several distributors through tradeshows to explore co-operation opportunity, no agreement has yet been reached</p> <p>d. concluded sale contracts with a satellite television channel and a pay TV channel</p>
<p>4. Development and training of human resources</p> <p>a. Continue to operate training courses and recruitment of prospective trainees</p>	<p>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</p>

Management Discussion and Analysis

Proposed plans as stated in the Prospectus	Actual progress
5. Enhancement of broadcasting in cinemas and development of new business	
a. Continue to negotiation with not less than three additional cinema operators in Hong Kong for investment in DV screening equipment	a. negotiated with cinemas in Hong Kong but without significant progress as the cooperation terms were not favorable to the Group
b. Commence investment in screening equipment jointly with certain cinema operators	b. not yet commenced as no agreement with cinema operator was concluded

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. During the period from 6 August 2002 (date of listing) to 30 June 2003, the Group has applied the following amounts to achieve the business objectives as set out in the Prospectus.

	Proposed application of fundings up to 30 June 2003 HK\$'million	Actual fundings utilised up to 30 June 2003 HK\$'million	<i>Notes</i>
Enhancement of production equipment	2.2	—	(i)
Improvement of the cast quality of movies	0.8	0.4	
Sales and marketing	1.5	1.0	
Development and training of human resources	1.0	—	(i)
Enhancement of broadcasting in cinemas and development of new business	1.5	—	(ii)
Total	<u>7.0</u>	<u>1.4</u>	

Management Discussion and Analysis

Notes:

- (i) The Group has adopted the expansion strategy by engaging new production sub-contractors with up-to-date 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 year ended 30 June 2003, 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 year 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 30 June 2003, the Group had total current assets of approximately HK\$46.9 million (2002: HK\$12.4 million), including cash and bank balances of approximately HK\$1.1 million (2002: HK\$0.1 million), pledged deposits of HK\$10.0 million (2002: Nil), film rights and films in progress of approximately HK\$21.6 million (2002: HK\$6.9 million) and prepayment, deposits and other receivables of approximately HK\$11.7 million (2002: HK\$5.0 million). The Group has aggregate outstanding borrowings of approximately HK\$26.4 million (2002: HK\$10.0 million). It comprised of a bank overdraft of approximately HK\$17.4 million (2002: HK\$0.4 million) at an interest rate ranged from 1.25% over Hong Kong dollars deposit rate to 2.25% over prevailing Hong Kong dollars prime rate per annum (2002: at 3% over prevailing Hong Kong dollars prime rate per annum) and advances due to a Director of approximately HK\$9.0 million (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 0.96 as at 30 June 2003 (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 Shares of the Company in August 2002 on GEM 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 of liquidity as a result of fluctuations in currency exchange rates. As at 30 June 2002 and 30 June 2003, 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\$10.0 million to its bankers for banking facilities granted (2002: Nil).

CONTINGENT LIABILITIES

As at 30 June 2002 and 30 June 2003, 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 2003 (2002: 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 2003.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

Apart from the group reorganisation ("Group Reorganisation") to rationalise the structure of the Group in preparation for listing of the Shares on GEM, details of which had been set out in the Prospectus, there had been no material acquisitions and disposals of subsidiaries during the year (2002: Nil).

EMPLOYEES

As at 30 June 2003, the Group had 13 full-time staff (2002: 12). The total of employee remuneration, including that of the Directors, for the year under review and last corresponding year amounted respectively to about HK\$3.6 million and HK\$0.5 million. 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.

OUTLOOK

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.

Biography of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Siu Luen Fat, aged 44, 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 of 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 52, 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 of 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 47, 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 of 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.

NON-EXECUTIVE DIRECTOR

Mr. Hung Kam Po, aged 51, 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 TV series for CBS Worldwide Inc. in Los Angeles, US 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 DIRECTOR

Ms. Chiu Kam Hing, Kathy, aged 54, 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.

Dr. Cheung Wai Bun, Charles, J.P., aged 67, 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 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 44, was appointed as an independent non-executive Director in May 2002. Mr. Kan is a qualified solicitor practicing 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 40, 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.

Biography of Directors and Senior Management

Ms. Lo Man Ling, aged 38, 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.

Mr. Ho Siu Man, Simon, aged 43, 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. Cheung Siu Kin, aged 35, 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 report and the audited financial statements of the Company and the Group for the year ended 30 June 2003.

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 reorganisation scheme (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"), 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, 16 and 23 to the financial statements.

Pursuant to a placement of 60,000,000 ordinary shares of HK\$0.01 each of the Company on 6 August 2002, the shares of the Company were listed on the GEM.

PRINCIPAL ACTIVITIES

The current principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 30 June 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 27 to 58.

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

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last four financial years is set out on pages 59 to 60. This summary does not form part of the audited financial statements.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the Company's share capital during the year, together with the reasons therefore, are set out in note 23 to the financial statements.

There were no movements in the Company's share options during the year.

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 Company's shares were listed on the GEM on 6 August 2002. Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities since that date and up to the date of this report.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 25 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 30 June 2003, the Company's reserve available for distribution amounted to HK\$19,307,000. Under the Companies Law (Revised) by the Cayman Islands, the share premium of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 73% of the total sales for the year and sales to the largest customer included therein amounted to approximately 23%.

Purchases from the Group's five largest suppliers accounted for approximately 91% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 41%.

None of the directors of the Company, 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 during the year and up to the date of this report were:

Executive directors:

Mr. Siu Luen Fat (Chairman)

Mr. Siu Kin Fat

Mr. Siu Kuen Fat

Non-executive director:

Mr. Hung Kam Po

Independent non-executive directors:

Ms. Chiu Kam Hing, Kathy

Dr. Cheung Wai Bun, Charles (appointed on 11 July 2002)

Mr. Kan Ching Duen

In accordance with articles 87(1) and (2) and 88 of the Company's articles of association, Ms. Chiu Kam Hing, Kathy and Mr. Kan Ching Duen will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 13 to 16 of the annual report.

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 compensation, 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 notes 1 and 23 to the financial statements, and the related party transactions disclosed in note 29 to the financial statements, no director had a material interest 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

At 30 June 2003, the directors and their associates in the listed share capital of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO), as recorded in the register to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Stock Exchange and the Company as required by Rule 5.40 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") 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 have equal beneficial interests 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 SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme disclosures in note 24 to the financial statements and other than in connection with the Group Reorganisation in preparation for the placing of the Company's shares, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries, a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

Due to the adoption of Statement of Standard Accounting Practice No. 34 "Employee benefits" during the year, most of the detailed disclosures relating to the Company's share option scheme (the "Scheme") have been moved to note 24 to the financial statements.

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

SUBSTANTIAL SHAREHOLDERS

At 30 June 2003, so far is known to the directors, the following interests of which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who were deemed to be directly and indirectly interested in 5% or more of the issued share capital of the Company, or which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Number of shares held	Percentage of holding
Coxwell Corp. (Note 1)	200,400,000	50.1%
Mr. Siu Luen Fat (Note 1)	200,400,000	50.1%
Mr. Siu Kin Fat (Note 1)	200,400,000	50.1%
Mr. Siu Kuen Fat (Note 1)	200,400,000	50.1%
Baserich International Limited (Note 2)	40,800,000	10.2%
Mr. Hung Kam Po (Note 2)	40,800,000	10.2%
Mr. Lee Tat Chiu (Note 2)	40,800,000	10.2%
Amerose International Limited (Note 3)	33,200,000	8.3%
Mr. Cheng Wing Ming (Note 3)	33,200,000	8.3%

Notes:

1. The 200,400,000 shares are registered in the name of Coxwell Corp.. Mr. Siu Luen Fat, Mr. Siu Kin Fat and Mr. Siu Kuen Fat have equal beneficial interests in Coxwell Corp.. Accordingly, each of Mr. Siu Luen Fat, Mr. Siu Kin Fat and Mr. Siu Kuen Fat is deemed to be interested in all the shares in which Coxwell Corp. is interested pursuant to the SFO.

2. The 40,800,000 shares are registered in the name of Baserich International Limited. Mr. Hung Kam Bo and Mr. Lee Tat Chiu have a beneficial interest of 34.2% and 43.9% respectively in Baserich International Limited. Accordingly, each of Mr. Hung Kam Bo and Mr. Lee Tat Chiu is deemed to be interested in all the shares in which Baserich International Limited is interested pursuant to the SFO.
3. The 33,200,000 shares are registered in the name of Amerose International Limited. Mr. Cheng Wing Ming and his wife Ms. Siu Yin Ping have a beneficial interest of 43.2% and 6.2% respectively in Amerose International Limited. Accordingly, Mr. Cheng Wing Ming is deemed to be interested in all the shares in which Baserich International Limited is interested pursuant to the SFO.

Save as disclosed above, no person who had an interest and/or a short position in the shares and/or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 and Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO and/or was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying voting rights to vote in all circumstances at general meetings of any members of the Group, or any options in respect of such capital.

SPONSOR'S INTEREST

Kim Eng Capital (Hong Kong) Limited (the "Sponsor") has confirmed that up to and as at the date of this report, neither the Sponsor nor its associates, directors or employees has any interest in any class of securities of the Company or of any 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) to 30 June 2005.

CONNECTED AND RELATED PARTY TRANSACTIONS

Details of the related party transactions for the year are set out in note 29 to the financial statements. The Stock 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 of the Company, is a director and beneficial shareholder of Far East Asia. The connected transaction related to the payment of an actor's fee amounting to HK\$4 million to Far East Asia during the year ended 30 June 2002 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 actor's 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 of the Company taken as a whole.

During the year, no amount of the above actor's 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.

COMPETITION AND CONFLICTS OF INTEREST

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 interest 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 Company's shares on the GEM on 6 August 2002.

AUDIT COMMITTEE

The Company established an audit committee on 22 July 2002 with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee comprises three members, Ms. Chiu Kam Hing, Kathy, Dr. Cheung Wai Ban, Charles, and Mr. Kan Ching Duen, who are the independent non-executive directors of the Company. The Group's audited results for the year ended 30 June 2003 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. During the year, 4 audit committee meetings were held for reviewing the Company's financial statements and providing advice and recommendations to the Board.

AUDITORS

Ernst & Young retire and a resolution for their reappointment 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

25 September 2003

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 27 to 58 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 financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 and the Group'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 and of the Group as at 30 June 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong

25 September 2003

Consolidated Profit and Loss Account

Year ended 30 June 2003

	Notes	2003 HK\$'000	2002 HK\$'000
TURNOVER	5	28,023	23,872
Cost of sales		<u>(17,118)</u>	<u>(17,337)</u>
Gross profit		10,905	6,535
Other revenue	5	118	284
Selling and distribution costs		(3,005)	(1,395)
Administrative expenses		<u>(5,501)</u>	<u>(3,931)</u>
PROFIT FROM OPERATING ACTIVITIES	7	2,517	1,493
Finance costs	8	<u>(438)</u>	<u>(38)</u>
PROFIT BEFORE TAX		2,079	1,455
Tax	11	<u>(19)</u>	<u>(18)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	12	<u><u>2,060</u></u>	<u><u>1,437</u></u>
EARNINGS PER SHARE	13		
Basic		<u><u>0.52 cents</u></u>	<u><u>0.42 cents</u></u>
Diluted		<u><u>N/A</u></u>	<u><u>N/A</u></u>

Consolidated Balance Sheet

30 June 2003

	Notes	2003 HK\$'000	2002 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	14	51	93
Film rights and films in progress	15	3,881	—
Prepayments		5,600	2,000
		<u>9,532</u>	<u>2,093</u>
CURRENT ASSETS			
Film rights and films in progress	15	21,588	6,923
Accounts receivable	17	2,510	330
Prepayments, deposits and other receivables		11,688	5,026
Pledged deposits	18	10,000	—
Cash and cash equivalents	18	1,149	80
		<u>46,935</u>	<u>12,359</u>
CURRENT LIABILITIES			
Deposits received		923	493
Accounts payable	19	659	30
Accrued liabilities and other payables		948	1,072
Tax payable		27	10
Due to a related company	20	—	1,320
Due to a director	21	—	9,617
Bank overdrafts, secured	22	17,362	395
		<u>19,919</u>	<u>12,937</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>27,016</u>	<u>(578)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>36,548</u>	<u>1,515</u>
NON-CURRENT LIABILITY			
Due to a director	21	9,046	—
		<u>27,502</u>	<u>1,515</u>
CAPITAL AND RESERVES			
Issued capital	23	4,000	100
Reserves	25	23,502	1,415
		<u>27,502</u>	<u>1,515</u>

Siu Luen Fat
Director

Siu Kuen Fat
Director

Consolidated Statement of Changes in Equity

Year ended 30 June 2003

		Issued share capital	Share premium account*	Capital reserve*	Accumulated losses*	Total
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2001		100	—	17,590	(17,612)	78
Net profit for the year		—	—	—	1,437	1,437
At 30 June 2002 and 1 July 2002		100	—	17,590	(16,175)	1,515
Issue of shares	23	600	29,400	—	—	30,000
Capitalisation issue of shares	23	3,300	(3,300)	—	—	—
Share issue expenses	23	—	(6,073)	—	—	(6,073)
Net profit for the year		—	—	—	2,060	2,060
At 30 June 2003		<u>4,000</u>	<u>20,027</u>	<u>17,590</u>	<u>(14,115)</u>	<u>27,502</u>

* These reserve accounts comprise the consolidated reserves of HK\$23,502,000 (2002: HK\$1,415,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 30 June 2003

	Notes	2003 HK\$'000	2002 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		2,079	1,455
Adjustments for:			
Finance costs	8	438	38
Interest income	5	(65)	—
Depreciation	7	71	116
Operating profit before working capital changes		2,523	1,609
Decrease/(increase) in film rights and films in progress		(18,546)	972
Decrease in inventories		—	3
Increase in accounts receivable		(2,180)	(128)
Decrease/(increase) in prepayments, deposits and other receivables		(10,262)	1,227
Increase in deposits received		430	23
Increase/(decrease) in accounts payable		629	(199)
Increase/(decrease) in accrued liabilities and other payables		(124)	598
Increase/(decrease) in an amount due to a related company		(1,320)	1,320
Decrease in an amount due to a director		(571)	(5,324)
Cash generated from/(used in) operations		(29,421)	101
Hong Kong profits tax paid		(2)	(49)
Net cash inflow/(outflow) from operating activities		(29,423)	52
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		65	—
Purchases of fixed assets		(29)	(3)
Net cash inflow/(outflow) from investing activities		36	(3)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		(438)	(38)
Proceeds from issue of share capital	23	30,000	—
Share issue expenses	23	(6,073)	—
Net cash inflow/(outflow) from financing activities		23,489	(38)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		(5,898)	11
Cash and cash equivalents at beginning of the year		(315)	(326)
CASH AND CASH EQUIVALENTS AT END OF YEAR		(6,213)	(315)

Consolidated Cash Flow Statement

Year ended 30 June 2003

	Notes	2003 HK\$'000	2002 HK\$'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	18	1,089	80
Non-pledged time deposits with original maturity of less than three months when acquired	18	60	—
Time deposits with original maturity of less than three months when acquired, pledged as security for bank overdraft facilities	18	10,000	—
Bank overdrafts, secured	22	(17,362)	(395)
		(6,213)	(315)

Balance Sheet

30 June 2003

	Notes	2003 HK\$'000	2002 HK\$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	16	13,260	—
CURRENT ASSETS			
Prepayments, deposits and other receivables		60	—
Pledged deposits	18	10,000	—
Cash and cash equivalents	18	67	—
		10,127	—
CURRENT LIABILITIES			
Accrued liabilities and other payables		80	—
NET CURRENT ASSETS			
		10,047	—
		23,307	—
CAPITAL AND RESERVES			
Issued capital	23	4,000	—
Reserves	25	19,307	—
		23,307	—

Siu Luen Fat
Director

Siu Kuen Fat
Director

1. 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 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) the 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 16 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.

2. CORPORATE INFORMATION

The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies. The principal place of business of the Company is located at 7th Floor, Cheong Tai Factory Building, 16 Tai Yau Street, San Po Kong, Kowloon, Hong Kong.

During the year, the Group was involved in the production and sale of videos and films, and the licensing of video and copyrights/film rights.

In the opinion of the directors, the ultimate holding company is Coxwell Corp., which is incorporated in the British Virgin Islands.

Notes to Financial Statements

30 June 2003

3. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

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

- SSAP 1 (Revised) : "Presentation of financial statements"
- SSAP 11 (Revised) : "Foreign currency translation"
- SSAP 15 (Revised) : "Cash flow statements"
- SSAP 34 : "Employee benefits"
- SSAP 35 : "Accounting for government grants and disclosure of government assistance"

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 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision of this SSAP is that a consolidated statement of changes in equity is now presented on page 29 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group's reserves note.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

SSAP 15 prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required.

3. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) (Cont’d)

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no material change to the previously adopted accounting treatments for employee benefits. Disclosures are now required in respect of the Company’s share option scheme, as detailed in note 24 to the financial statements. These share option scheme disclosures are similar to the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) disclosures previously included in the Report of the Directors, which are now included in the notes to the financial statements as a consequence of the SSAP.

SSAP 35 prescribes the accounting and disclosure requirements for government grants and other forms of government assistance. The SSAP has had no significant effect on the financial statements.

4. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and consolidation

The consolidated financial statements have been prepared using the merger basis of accounting. Under this basis, the Company has been treated as the holding company of its subsidiaries for the financial years presented rather than from the date of acquisition of the subsidiaries. Accordingly, the consolidated results and cash flows of the Group for each of the years ended 30 June 2002 and 2003 include the results and cash flows of the Company and its subsidiaries with effect from 1 July 2001 or since their respective dates of incorporation, where this is a shorter period. The comparative consolidated balance sheet as at 30 June 2002 have been prepared on the basis that the current Group structure had been in existence at that date.

All significant transactions and balances within the Group have been eliminated in the preparation of the consolidated financial statements.

In the opinion of the directors, the consolidated financial statements prepared on the aforesaid basis present more fairly the results and state of affairs of the Group as a whole.

30 June 2003

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

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.

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 results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests 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.

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

Impairment of assets (Cont'd)

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.

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.

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

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.

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.

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.

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

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, 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, 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.

30 June 2003

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

Foreign currency transactions

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

Employee benefits

Pension scheme

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. 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.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

5. 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:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Turnover		
Licensing of film rights	27,685	19,937
Sub-licensing of film rights	250	3,900
Sale of videos and video compact discs	88	35
	28,023	23,872
Other revenue		
Interest income	65	—
Forfeited deposit from a customer	—	263
Others	53	21
	118	284

6. SEGMENT INFORMATION

The Group is principally engaged in the production of video and films, and licensing of video and copyrights/film rights. Accordingly, no analysis of business segment, the primary segment, is provided.

In determining the Group's geographical segments, the secondary segment, 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. As all of the Group's principal activities were carried out in Hong Kong during the year, no analysis of geographical segment assets information is presented.

Notes to Financial Statements

30 June 2003

6. SEGMENT INFORMATION (Cont'd)

Geographical segments

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

Group

	Hong Kong		Elsewhere in the PRC		Asia excluding Hong Kong and elsewhere in the PRC		Others		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	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	5,144	8,243	5,213	10,420	10,921	4,050	6,745	1,159	28,023	23,872
Other revenue	53	284	—	—	—	—	—	—	53	284
Total	5,197	8,527	5,213	10,420	10,921	4,050	6,745	1,159	28,076	24,156
Segment results	458	155	456	900	948	338	590	100	2,452	1,493
Interest income									65	—
Finance costs									(438)	(38)
Profit before tax									2,079	1,455
Tax									(19)	(18)
Net profit from ordinary activities attributable to shareholders									2,060	1,437

7. PROFIT FROM OPERATING ACTIVITIES

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

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Cost of film and sub-licensing rights*	17,029	17,288
Cost of inventories sold	89	49
Depreciation	71	116
Auditors' remuneration	470	350
Staff costs (excluding directors' remuneration in note 9):		
Wages and salaries	2,205	337
Pension scheme contributions	83	16
	2,288	353
Minimum lease payments under operating leases in respect of land and buildings to:		
a related company – note 29	168	168
an independent third party	298	167
	466	335

* The cost of film and sub-licensing rights for the year included amortisation of film rights of HK\$16,860,000 (2002: HK\$13,778,000) and is included in cost of sales in the consolidated profit and loss account.

8. FINANCE COSTS

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Interest on bank overdrafts wholly repayable within one year	438	38

Notes to Financial Statements

30 June 2003

9. DIRECTORS' REMUNERATION

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Fees	80	—
Other emoluments:		
Salaries, allowances and benefits in kind	1,200	180
Pension scheme contributions	30	—
	<u>1,230</u>	<u>180</u>
	<u>1,310</u>	<u>180</u>

All the fees were payable to the non-executive director and the independent non-executive directors of the Company during the year (2002: Nil).

The remuneration of each of the directors fell within the band of nil to HK\$1,000,000 for each of the two years ended 30 June 2002 and 2003.

	2003 HK\$'000	2002 HK\$'000
Executive director A	852	60
Executive director B	189	60
Executive director C	189	60
Independent non-executive director A	20	—
Independent non-executive director B	20	—
Independent non-executive director C	20	—
Non-executive director A	20	—
	<u>1,310</u>	<u>180</u>

9. DIRECTORS' REMUNERATION (Cont'd)

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. There were no arrangement under which a director waived or agreed to waive any remuneration during the year.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included one (2002: two) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining four (2002: three) non-director, highest paid employees are as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Salaries and allowances	1,364	274
Pension scheme contributions	47	13
	<u>1,411</u>	<u>287</u>

The emoluments of each of the remaining non-director, highest paid employees fell within the band of nil to HK\$1,000,000 for the each of the two years ended 30 June 2002 and 2003.

11. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 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\$2,440,000 (2002: HK\$2,117,000), which principally represented tax losses carried forward.

There was no unprovided deferred tax liability in respect of the year (2002: Nil).

Notes to Financial Statements

30 June 2003

12. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 30 June 2003 dealt with in the financial statements of the Company is HK\$720,000 (2002: Nil).

13. EARNINGS PER SHARE

The basic earnings per share for the year is calculated based on the consolidated net profit from ordinary activities attributable to shareholders of the Company for the year of HK\$2,060,000 (2002: HK\$1,437,000), and the weighted average of 394,739,326 (2002: 340,000,000) ordinary shares deemed to have been issued and issuable during the year, on the assumption that the Group Reorganisation and the capitalisation issue of 330,000,000 shares of the Company had been effective on 1 July 2001.

Diluted earnings per share amounts for each of the two years ended 30 June 2002 and 2003 have not been disclosed as no diluting event existed during these years.

14. FIXED ASSETS

Group

	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	188	332	640
Additions	22	—	7	29
At 30 June 2003	142	188	339	669
Accumulated depreciation:				
At beginning of year	113	150	284	547
Provided during the year	8	28	35	71
At 30 June 2003	121	178	319	618
Net book value:				
At 30 June 2003	21	10	20	51
At 30 June 2002	7	38	48	93

15. FILM RIGHTS AND FILMS IN PROGRESS

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Film rights	8,115	4,756
Films in progress	12,798	2,167
Sub-licensing rights	4,556	—
	<u>25,469</u>	<u>6,923</u>
Less: Amounts classified as current assets	(21,588)	(6,923)
Non-current portion	<u>3,881</u>	<u>—</u>

16. INTERESTS IN SUBSIDIARIES

	Company	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Unlisted shares, at cost	100	—
Due from subsidiaries	13,160	—
	<u>13,260</u>	<u>—</u>

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Notes to Financial Statements

30 June 2003

16. INTERESTS IN SUBSIDIARIES (Cont'd)

Particulars of the subsidiaries are as follows:

Name	Place of incorporation and operations	Nominal value of issued and paid-up share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
B & S Group Limited	British Virgin Islands/ Hong Kong	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/ Hong Kong	US\$15,000 ordinary	—	100	Holding of copyrights

17. ACCOUNTS RECEIVABLE

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

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Within 30 days	1,504	101
Between 31 to 60 days	300	81
Between 61 to 90 days	100	—
Between 91 to 120 days	440	148
Over 120 days	166	—
	<u>2,510</u>	<u>330</u>

The credit terms offered by the Group are in accordance with the terms specified in the agreements entered into with the customers. For the customers who have a long established business relationship with the Group and who are assessed to have good creditworthiness, a credit term ranging from 30 to 90 days is offered, subject to the directors' approval.

18. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Cash and bank balances	1,089	80	7	—
Time deposits	10,060	—	10,060	—
	<u>11,149</u>	<u>80</u>	<u>10,067</u>	<u>—</u>
Less: Pledged time deposits, pledged for bank overdraft facilities	(10,000)	—	(10,000)	—
Cash and cash equivalents	<u>1,149</u>	<u>80</u>	<u>67</u>	<u>—</u>

Notes to Financial Statements

30 June 2003

19. ACCOUNTS PAYABLE

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Within 30 days	85	8
Between 31 to 60 days	127	13
Between 61 to 90 days	186	9
Over 90 days	261	—
	<u>659</u>	<u>30</u>

20. DUE TO A RELATED COMPANY

The amount due to a related company as at 30 June 2002 was unsecured, interest-free and fully repaid in August 2002.

21. 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 flows 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

21. DUE TO A DIRECTOR (Cont'd)

- (ii) each of the 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.

22. BANK OVERDRAFTS, SECURED

The bank overdrafts were secured by a corporate guarantee from the Company and the Company's bank deposits of HK\$10,000,000. In the prior year, the bank overdrafts were secured by personal guarantees from the three executive directors of the Company and the corporate guarantees from the related companies, Lightal Limited, which is beneficially owned by Mr. Siu Luen Fat, and Bossfield Investment Limited, which has common executive directors with the Company.

23. SHARE CAPITAL

	Company	
	2003 HK\$'000	2002 HK\$'000
Authorised:		
3,000,000,000 (2002: 3,000,000,000) ordinary shares of HK\$0.01 each	<u>30,000</u>	<u>30,000</u>
Issued and fully paid:		
400,000,000 (2002: 15,000) ordinary shares of HK\$0.01 each	<u>4,000</u>	<u>—</u>

The comparative balance of share capital as at 30 June 2002 as shown on the consolidated balance sheet represents the pro forma share capital of the Group as at that date.

Notes to Financial Statements

30 June 2003

23. SHARE CAPITAL (Cont'd)

During the period from 11 April 2002 (date of incorporation) to 30 June 2003, the movements in share capital were as follows:

- (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 and 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.

23. SHARE CAPITAL (Cont'd)

A summary of transactions with reference to the above movements in the Company's issued ordinary share capital is as follows:

	Notes	Number of shares in issue	Issued share capital HK\$	Share premium account HK\$	Total HK\$
Allotted and issued at par	23(i)	15,000	150	—	150
On acquisition of B&S BVI — consideration share issues credited as fully paid	23(ii)	9,985,000	99,850	—	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	23(iii)	330,000,000	—	—	—
Pro forma share capital of the Group as at 30 June 2002 and 1 July 2002		340,000,000	100,000	—	100,000
Capitalisation of the share premium account as set out above	23(iii)	—	3,300,000	(3,300,000)	—
New issue of shares	23(iv)	60,000,000	600,000	29,400,000	30,000,000
Share issue expenses		—	—	(6,073,000)	(6,073,000)
At 30 June 2003		<u>400,000,000</u>	<u>4,000,000</u>	<u>20,027,000</u>	<u>24,027,000</u>

24. SHARE OPTION SCHEME

SSAP 34 was adopted during the year, as explained in note 3 and under the heading "Employee benefits" in note 4 to the financial statements. As a result, the following detailed disclosures relating to the Company's share option scheme are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Reports of the Directors, as their disclosure is also a requirement of the GEM Listing Rules.

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors (including independent non-executive directors), other employees of the Group, and suppliers of goods or services to the Group. The Scheme became effective on 22 July 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

24. SHARE OPTION SCHEME (Cont'd)

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

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

25. RESERVES

(a) Group

The amount of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 29 of the financial statements.

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 23(ii)) of HK\$157,000; and

Notes to Financial Statements

30 June 2003

25. RESERVES (Cont'd)

(a) Group (Cont'd)

- (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 21 and 23 to the financial statements and in the Prospectus dated 29 July 2002.

(b) Company

	Notes	Share premium account HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Issue of shares	23	29,400	—	29,400
Capitalisation issue of shares	23	(3,300)	—	(3,300)
Share issue expenses	23	(6,073)	—	(6,073)
Net loss for the year		—	(720)	(720)
At 30 June 2003		<u>20,027</u>	<u>(720)</u>	<u>19,307</u>

26. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Changes to the layout of the consolidated cash flow statement

SSAP 15 (Revised) was adopted during the current year, as detailed in note 3 to the financial statements, which has resulted in a change to the layout of the consolidated cash flow statement. The consolidated cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that taxes paid are now included in cash flows from operating activities, interest received is now included in cash flows from investing activities, and interest paid is now included in cash flows from financing activities. The presentation of the 2002 comparative consolidated cash flow statement has been changed to accord with the new layout.

27. CONTINGENT LIABILITIES

Other than as disclosed in note 22 to the financial statements, neither the Group, nor the Company had any significant contingent liabilities at the balance sheet date (2002: Nil).

28. OPERATING LEASE ARRANGEMENTS

The Group leases its office property under an operating lease arrangement. Lease for office property is negotiated for a term of 3 years.

At 30 June 2003, the Group had total future minimum lease payments under the non-cancellable operating lease falling due as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Within one year	168	168
In the second to fifth years, inclusive	98	266
	<u>266</u>	<u>434</u>

Save as aforesaid, the Group did not have any other commitments at 30 June 2003.

The Company did not have any significant commitments as at 30 June 2003 (2002: Nil).

29. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	2003 HK\$'000	2002 HK\$'000
Lightal Limited:			
Management fee paid	(i)	220	2,640
Operating lease rentals in respect of land and buildings	(ii)	<u>168</u>	<u>168</u>

Notes to Financial Statements

30 June 2003

29. RELATED PARTY TRANSACTIONS (Cont'd)

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, which was beneficially owned by Mr. Siu Luen Fat, the executive director of the Company, and was charged by reference to the actual costs incurred. The transactions ceased subsequent to 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.

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.

30. COMPARATIVE AMOUNTS

As further explained in note 3 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

31. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 September 2003.

Financial Summary

The following is a summary of the published consolidated 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			
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
TURNOVER	28,023	23,872	28,267	23,472
Cost of sales	(17,118)	(17,337)	(21,969)	(19,463)
Gross profit	10,905	6,535	6,298	4,009
Other revenue	118	284	19	2
Selling and distribution costs	(3,005)	(1,395)	(1,362)	(1,830)
Administrative expenses	(5,501)	(3,931)	(4,011)	(4,148)
Other operating expenses	—	—	—	(995)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	2,517	1,493	944	(2,962)
Finance costs	(438)	(38)	(52)	(55)
PROFIT/(LOSS) BEFORE TAX	2,079	1,455	892	(3,017)
Tax	(19)	(18)	(45)	(70)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	2,060	1,437	847	(3,087)

Financial Summary

ASSETS AND LIABILITIES

	2003 HK\$'000	30 June		
		2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Non-current assets	9,532	2,093	206	274
Current assets	46,935	12,359	16,484	24,563
Current liabilities	(19,919)	(12,937)	(16,612)	(25,606)
Net current assets/(liabilities)	27,016	(578)	(128)	(1,043)
Non-current liability	9,046	—	—	—
	27,502	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 4 to the financial statements. The consolidated results of the Group for the year ended 30 June 2003 are also set out on page 27 of the audited financial statements.
2. 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 after incorporating the effect of the capitalisation of HK\$17,550,000 due to a director as detailed in note 21 to the financial statements. The consolidated balance sheet as at 30 June 2002 has been extracted from the audited financial statements and the consolidated balance sheet as at 30 June 2003 is set out on page 28 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 7th Floor, Cheong Tai Factory Building, 16 Tai Yau Street, San Po Kong, Kowloon, Hong Kong on 6 November 2003 at 3:00 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 2003.
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;

Notice of Annual General Meeting

- (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.

(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)."

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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 2003

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 G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, 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 2003 Annual Report of the Company.