



B&S
ENTERTAINMENT HOLDINGS LIMITED

中大娛樂控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Interim Report 2003-2004

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.

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

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

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

HALF-YEAR RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2003 (UNAUDITED)

The board (the "Board") of directors (the "Directors") of B&S Entertainment Holdings Limited (the "Company") is pleased to announce the unaudited half-year consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 31 December 2003 together with comparative unaudited figures for the corresponding period of 2002 as restated for the effect of adoption of the revised Hong Kong Statement of Standard Accounting Practice No. 12 "Income Taxes" as follows. The condensed consolidated interim financial statements was not audited but have been reviewed by the audit committee of the Company.

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

		For the three months ended 31 December		For the six months ended 31 December	
	Notes	2003 (unaudited) HK\$'000	Restated 2002 (unaudited) HK\$'000	2003 (unaudited) HK\$'000	Restated 2002 (unaudited) HK\$'000
TURNOVER	2	4,960	7,609	10,195	13,216
Cost of sales		(2,030)	(4,421)	(4,987)	(7,955)
Gross profit		2,930	3,188	5,208	5,261
Other income	2	9	19	30	49
Selling and distribution costs		(289)	(732)	(919)	(1,382)
Administrative expenses		(1,366)	(1,455)	(2,589)	(2,784)
PROFIT FROM OPERATING ACTIVITIES	3	1,284	1,020	1,730	1,144
Finance costs	4	(167)	(87)	(368)	(93)
PROFIT BEFORE TAX		1,117	933	1,362	1,051
Tax	5	(316)	(242)	(316)	(252)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>801</u>	<u>691</u>	<u>1,046</u>	<u>799</u>
EARNINGS PER SHARE	6				
Basic		<u>0.20 cent</u>	<u>0.17 cent</u>	<u>0.26 cent</u>	<u>0.21 cent</u>
Diluted		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		31 December 2003 (unaudited) HK\$'000	Restated 30 June 2003 (unaudited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Fixed assets	8	46	51
Deferred tax assets	1	2,161	2,471
Film rights and films in progress	9	4,315	3,881
Prepayments		5,600	5,600
		12,122	12,003
CURRENT ASSETS			
Film rights and films in progress	9	18,183	21,588
Accounts receivable	10	5,397	2,510
Prepayments, deposits and other receivables		12,411	11,688
Pledged bank deposits	13	10,000	10,000
Cash and bank balances		1,651	1,149
		47,642	46,935
CURRENT LIABILITIES			
Deposits received		755	923
Accounts payable	11	165	659
Accrued liabilities and other payables		1,740	948
Tax payable		22	27
Bank overdrafts, secured	13	17,017	17,362
		19,699	19,919
NET CURRENT ASSETS		27,943	27,016
TOTAL ASSETS LESS CURRENT LIABILITIES		40,065	39,019
NON-CURRENT LIABILITIES			
Due to a director	12	9,046	9,046
NET ASSETS		31,019	29,973
CAPITAL AND RESERVES			
Issued capital		4,000	4,000
Reserves	14	27,019	25,973
SHAREHOLDERS' FUNDS		31,019	29,973

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months
ended 31 December

	2003 (unaudited) <i>HK\$'000</i>	2002 (unaudited) <i>HK\$'000</i>
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	1,196	(22,155)
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	19	(4,712)
NET CASH (OUTFLOW)/INFLOW FROM FINANCING ACTIVITIES	<u>(368)</u>	<u>23,927</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	847	(2,940)
CASH AND CASH EQUIVALENTS AT 1 JULY	<u>(6,213)</u>	<u>(315)</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	<u><u>(5,366)</u></u>	<u><u>(3,255)</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Pledged bank deposits	10,000	10,000
Cash and bank balances	1,651	382
Bank overdrafts, secured	<u>(17,017)</u>	<u>(13,637)</u>
	<u><u>(5,366)</u></u>	<u><u>(3,255)</u></u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July 2002, as previously reported	100	—	17,590	(16,175)	1,515
Prior year adjustment: SSAP 12 — restatement of deferred tax assets	—	—	—	2,689	2,689
At 1 July 2002, as restated	100	—	17,590	(13,486)	4,204
Issuance of shares	600	29,400	—	—	30,000
Capitalisation issue of shares	3,300	(3,300)	—	—	—
Share issuance expenses	—	(6,073)	—	—	(6,073)
Profit for the period (restated)	—	—	—	799	799
At 31 December 2002	<u>4,000</u>	<u>20,027</u>	<u>17,590</u>	<u>(12,687)</u>	<u>28,930</u>
At 1 July 2003, as previously reported	4,000	20,027	17,590	(14,115)	27,502
Prior year adjustment: SSAP 12 — restatement of deferred tax assets	—	—	—	2,471	2,471
At 1 July 2003, as restated	4,000	20,027	17,590	(11,644)	29,973
Profit for the period	—	—	—	1,046	1,046
At 31 December 2003	<u>4,000</u>	<u>20,027</u>	<u>17,590</u>	<u>(10,598)</u>	<u>31,019</u>

Notes:

1. Principal accounting policies and basis of presentation

The unaudited condensed consolidated financial statements of the Group have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong, and the applicable disclosure requirements of the Rules Governing the Listing of Securities on GEM of the Exchange. They have been prepared under the historical cost convention.

The accounting policies and basis of preparation adopted for the preparation of the interim financial report are consistent with those adopted by the Group in its annual financial statements for the year ended 30 June 2003, except that the Group has adopted certain revised or new issued SSAPs which are effective for accounting periods commencing on or after 1 January 2003. Certain comparative amounts for the prior period have been restated to conform with the current period's presentation.

SSAP 12 "Income Taxes"

The revised SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax). In accordance with the revised SSAP 12, deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are fully provided for, whereas previously for deferred tax was recognized for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallize in the foreseeable future. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

The Group has tax losses arising in Hong Kong that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets are now recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Summary of effects of this change in accounting policy:

Debit/(Credit)	Deferred tax assets HK\$'000	Accumulated losses HK\$'000
Accumulated effects as at 1 July 2002	2,689	(2,689)
Effects for the year ended 30 June 2003	<u>(218)</u>	<u>218</u>
Accumulated effects as at 30 June 2003	<u><u>2,471</u></u>	<u><u>(2,471)</u></u>

The amount of additional provision for deferred tax liabilities charged to the profit and loss accounts for the six months ended 31 December 2002 was HK\$239,000.

SSAP 34 "Employee benefits"

The SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. This SSAP has no significant impact on the condensed consolidated financial statements.

2. Turnover, revenues and segment information

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

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

	For the six months ended 31 December	
	2003 HK\$'000	2002 HK\$'000
Turnover		
Licensing of film rights	9,804	13,180
Sub-licensing of film rights	380	—
Sale of videos and video compact discs	11	36
	<u>10,195</u>	<u>13,216</u>
Other revenue		
Interest income	30	18
Other	—	31
	<u>30</u>	<u>49</u>
	<u>10,225</u>	<u>13,265</u>

Segment information

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

	For the six months ended 31 December	
	2003 HK\$'000	2002 HK\$'000
By activity:		
Film licensing and sub-licensing	10,184	13,180
Sale of video and video compact discs	11	36
Other revenue	30	49
	<u>10,225</u>	<u>13,265</u>
By geographical area:		
Hong Kong	483	1,820
The People's Republic of China (the "PRC")	4,094	4,832
Asia other than Hong Kong and the PRC	5,449	6,088
Others	199	525
	<u>10,225</u>	<u>13,265</u>

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

	For the six months ended 31 December	
	2003 HK\$'000	Restated 2002 HK\$'000
By activity:		
Film licensing and sub-licensing	1,733	1,156
Sale of video and video compact discs	<u>(3)</u>	<u>(12)</u>
	1,730	1,144
Finance costs	<u>(368)</u>	<u>(93)</u>
Profit before tax	1,362	1,051
Tax	<u>(316)</u>	<u>(252)</u>
Net profit from ordinary activities attributable to shareholders	<u>1,046</u>	<u>799</u>
By geographical area:		
Hong Kong	49	182
The People's Republic of China (the "PRC")	749	406
Asia other than Hong Kong and the PRC	911	512
Others	<u>21</u>	<u>44</u>
	<u>1,730</u>	<u>1,144</u>

3. Profit from operating activities

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

	For the three months ended 31 December		For the six months ended 31 December	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Cost of film and sub-licensing rights	2,026	4,405	4,976	7,918
Cost of inventories sold	4	16	11	37
Depreciation	8	18	16	35
Minimum lease payments under operating leases of land and building	42	42	84	84
Staff costs including directors' emoluments	<u>1,020</u>	<u>857</u>	<u>2,019</u>	<u>1,598</u>

4. Finance costs

	For the three months ended 31 December		For the six months ended 31 December	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Interest on bank overdrafts wholly repayable within one year	<u>167</u>	<u>87</u>	<u>368</u>	<u>93</u>

5. Tax

	For the three months ended 31 December		For the six months ended 31 December	
	2003 HK\$'000	Restated 2002 HK\$'000	2003 HK\$'000	Restated 2002 HK\$'000
Current — Hong Kong	6	3	6	13
Deferred — Hong Kong	<u>310</u>	<u>239</u>	<u>310</u>	<u>239</u>
	<u>316</u>	<u>242</u>	<u>316</u>	<u>252</u>

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong for the period under review of the individual companies within the Group.

Deferred taxation is accounted for at the current taxation rate.

6. Earnings per share

The basic earnings per share for the three months and six months ended 31 December 2003 are calculated based on the unaudited consolidated net profit from ordinary activities attributable to shareholders of the Company for the three months and six months ended 31 December 2003 of approximately HK\$801,000 and HK\$1,046,000 respectively (2002 as restated: approximately HK\$691,000 and HK\$799,000 respectively) and on a weighted average number of approximately 400,000,000 shares and 400,000,000 shares respectively (2002: 400,000,000 shares and 389,565,217 shares respectively deemed to have been issued and issuable during the period under review on the assumption that the group reorganisation (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of its shares on the GEM of the Exchange on 6 August 2002, and the subsequent capitalisation issue of 330,000,000 shares of the Company had been effective on 1 July 2002).

Diluted earnings per share for the three months and six months ended 31 December 2003 and 2002 has not been disclosed as no diluting event existed during these periods.

7. Dividends

The Directors do not recommend the payment of an interim dividend for the six months ended 31 December 2003 (2002: Nil).

8. Fixed assets

	Office equipment <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:				
At 1 July 2003	142	188	339	669
Additions	<u>1</u>	<u>10</u>	<u>—</u>	<u>11</u>
At 31 December 2003	<u>143</u>	<u>198</u>	<u>339</u>	<u>680</u>
Accumulated depreciation:				
At 1 July 2003	121	178	319	618
Provided during the period	<u>3</u>	<u>5</u>	<u>8</u>	<u>16</u>
At 31 December 2003	<u>124</u>	<u>183</u>	<u>327</u>	<u>634</u>
Net book value:				
At 31 December 2003	<u>19</u>	<u>15</u>	<u>12</u>	<u>46</u>
At 30 June 2003	<u>21</u>	<u>10</u>	<u>20</u>	<u>51</u>

9. Film rights and films in progress

	31 December 2003 <i>HK\$'000</i>	30 June 2002 <i>HK\$'000</i>
Film rights	7,566	8,115
Films in progress	9,813	12,798
Sub-licensing rights	<u>5,119</u>	<u>4,556</u>
	22,498	25,469
Less: Amounts classified as current assets	<u>(18,183)</u>	<u>(21,588)</u>
Non-current portion	<u>4,315</u>	<u>3,881</u>

10. Accounts receivable

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

	31 December 2003 HK\$'000	30 June 2002 HK\$'000
Within 30 days	1,891	1,504
Between 31 to 60 days	—	300
Between 61 to 90 days	20	100
Between 91 to 120 days	3,470	440
Over 120 days	16	166
	<u>5,397</u>	<u>2,510</u>

11. Accounts payable

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

	31 December 2003 HK\$'000	30 June 2002 HK\$'000
Within 30 days	—	85
Between 31 to 60 days	4	127
Between 61 to 90 days	5	186
Over 90 days	156	261
	<u>165</u>	<u>659</u>

12. Due to a Director

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

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

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

13. Bank overdrafts, secured

The bank overdrafts were secured by corporate guarantees from the Company and pledge of the Group's bank deposits of HK\$10 million (As at 30 June 2003: HK\$10 million).

14. Share capital

	Number of ordinary shares of HK\$0.01 each	Value HK\$
<i>Authorised:</i>		
At 30 June 2003		
and at 31 December 2003	<u>3,000,000,000</u>	<u>30,000,000</u>
<i>Issued and fully paid:</i>		
At 30 June 2003		
and at 31 December 2003	<u>400,000,000</u>	<u>4,000,000</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the period under review, the Group was principally engaged in the production of movies and distribution of copyright/film rights in respect of movies produced by the Group and sub-licensing of film rights to overseas countries and in Hong Kong.

The Group has continued to adopt the strategies of engaging independent film production companies for the production of a number of digital video (“DV”) format and 35mm format movies which are expected to be completed in the next few years to enhance the quality 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.

For the period under review, due to the impact of SARS and the uncertainty of global economic environment, the launching of DV format movies has been slowed down. The Group’s turnover decreased to approximately HK\$10.2 million as compared to approximately HK\$13.2 million in the previous period, representing a decrease of around 22.7%. It was mainly attributable to the drop in the income from licensing of film rights as the Group has launched 7 DV format movies to the market, the number of which is only half of that launched in the previous period (2002: 13 DV format movies).

The gross profit margin of the Group was approximately 51.1%, representing an increase of approximately 7.6% and 11.3% as compared to that of the first quarter this year and corresponding previous period respectively. The significant improvement in gross profit margin from licensing of film rights was mainly due to licensing of film rights for which the film cost was fully amortised to distributors in East Asia and the PRC.

Administrative expenses for the six months under review decreased slightly to approximately HK\$2.6 million as compared to approximately HK\$2.8 million in the corresponding period of last year. With the decrease in number of digital movie launched during the period, selling and distribution costs of them were decreased to approximately HK\$0.9 million from about HK\$1.4 million for the same period in the previous year. These were mainly comprised of staff costs and distribution fee paid to media companies.

Due to the net effect of the above, the net profit from ordinary activities attributable to shareholders of the Company, therefore increased, for the two periods under comparison, from about HK\$0.8 million as restated to about HK\$1.0 million while the net profit margin also increased from about 6.0% to about 10.3%.

Outlook

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, video cassette tapes, pay and non-pay TV.

With the Closer Economic Partnership Arrangement coming into effect in January 2004, Best Faith (Hong Kong) Limited (Trading as B & S Films Creation Works House), a wholly-owned subsidiary of the Company, and Guangdong Freeland Movie & Video Production Co., Ltd. ("Guangdong Freeland"), have entered into a non-legally bound letter of intent on film production ("Letter of Intent"). Guangdong Freeland is the owner and founder of "Endless Freeland" brand and distributes audio & video product series in over 2,000 categories through the sales network covering over 6,000 sales network points in the PRC.

Pursuant to the Letter of Intent, 25 sets of 35mm colour movie ("Movies") are projected to be produced in 2004. Guangdong Freeland will provide at least HK\$1 million for the production of each of the Movies while B & S Films Creation Works House will be responsible for the administration and production works of these Movies. Revenues will be earned by the Group from the distribution and licensing of film rights of these Movies.

Therefore, the Group will increase the film production of 35mm format movies and maintain the film production of digital format movies at the same time. With our experience in the DV format movie production, strength in the distribution of DV format movies and the extensive experience and expertise of the Group's management team, the directors are confident that the Group can capture a greater share of the DV film market and achieve its objective to become an active movie producer and distributor of Chinese language movies in the Greater China region, North America, Europe, Asia and other countries by using both 35mm filming and DV filming techniques.

COMPARISON BETWEEN PLANNED BUSINESS OBJECTIVES AS STATED IN THE PROSPECTUS AND ACTUAL BUSINESS PROGRESS FOR THE PERIOD FROM 1 JULY 2003 TO 31 DECEMBER 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's filming equipment</p> | <p>a. not yet implemented as the Group has adopted the strategy of engaging new production sub-contractors with advanced production equipment and movie technology</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> |
| <p>3. Sales and marketing</p> <p>a. Continue to attend tradeshows and film festivals</p> <p>b. Continue to expand the sales and distribution teams by employing two additional staff</p> | <p>a. attended various tradeshows and films festivals in Europe and Asia</p> <p>b. employed one new staff only as lack of suitable candidate with relevant experience</p> |

- | | |
|--|---|
| <ul style="list-style-type: none"> c. Continue to expand the network for distribution in cable television channel d. Begin to distribute the copyright/film rights in respect of the Group's movies to non-Chinese community in North America | <ul style="list-style-type: none"> c. implemented as planned d. discussed with several distributors through tradeshows to explore co-operation opportunity, no agreement has yet been reached |
| <ul style="list-style-type: none"> 4. Development and training of human resources <ul style="list-style-type: none"> a. Continue to operate training courses and organize new training courses which meet the latest development of the film industry | <ul style="list-style-type: none"> 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 |
| <ul style="list-style-type: none"> 5. Enhancement of broadcasting in cinemas and development of new business <ul style="list-style-type: none"> a. Continue to negotiate with additional cinema operators in Hong Kong for investment in DV screening equipment | <ul style="list-style-type: none"> a. negotiated with cinemas in Hong Kong but without significant progress as the cooperation terms were not favorable to the Group |

USE OF PROCEEDS FROM ISSUANCE OF NEW SHARES

During the period from 6 August 2002 (date of listing) to 31 December 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 31 December 2003 HK\$'million	Actual fundings utilised up to 31 December 2003 HK\$'million	<i>Notes</i>
Enhancement of production equipment	3.7	—	(i)
Improvement of the cast quality of movies	1.6	0.4	
Sales and marketing	3.0	1.3	
Development and training of human resources	2.0	—	(i)
Enhancement of broadcasting in cinemas and development of new business	3.0	—	(ii)
	<hr/>	<hr/>	
Total	13.3	1.7	

Notes:

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

During the period ended 31 December 2003, in response to the rapid changes in market conditions and opportunities, the Group has several contracts with independent film production companies to enlarge the Group's production base of both DV format and 35mm format movies. These contracts were financed by the net proceeds from the issuance of new shares.

Financial Position

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

As at 31 December 2003, the Group had total current assets of approximately HK\$47.6 million (As at 30 June 2003: HK\$46.9 million), including cash and bank balances of approximately HK\$1.7 million (As at 30 June 2003: HK\$1.1 million), pledged deposit of HK\$10.0 million (As at 30 June 2003: HK\$10.0 million), film rights and films in progress of approximately HK\$18.2 million (As at 30 June 2003: HK\$21.6 million) and prepayment, deposits and other receivables of approximately HK\$12.4 million (As at 30 June 2003: HK\$11.7 million). The Group has aggregate outstanding borrowings of approximately HK\$26.1 million (As at 30 June 2003: HK\$26.4 million). It comprised of bank overdrafts of approximately HK\$17.0 million (As at 30 June 2003: HK\$17.4 million) and advances due to a Director of approximately HK\$9.0 million (As at 30 June 2003: HK\$9.0 million).

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 0.84 as at 31 December 2003 (As at 30 June 2003 restated: 0.88).

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 31 December 2003 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 deposits of HK\$10 million to its bankers for banking facilities granted (As at 30 June 2003: HK\$10 million).

Contingent Liabilities

As at 31 December 2003 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 six months ended 31 December 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 31 December 2003.

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

There had been no material acquisitions and disposals of subsidiaries during the period under review (2002: Nil).

Employees

As at 31 December 2003, the Group had 15 full-time staff (As at 30 June 2003: 13). The total of employee remuneration, including that of the Directors, for the period under review and corresponding period of last year amounted respectively to about HK\$2,019,000 and HK\$1,598,000. The Group remunerates its employees based on their performance, experience and the prevailing industry practice. Employee remuneration, excluding Directors' emoluments, is reviewed annually. In addition to the basic salaries, employees are also entitled to benefits including bonus and mandatory provident fund. On 22 July 2002, the Company had adopted a share option scheme under which full time employees, including directors, of the Company and its subsidiaries, might be granted options to subscribe for the Company's ordinary shares. At the date of this report, no share options were granted under the share option scheme.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES

As at 31 December 2003, the interests or short positions of the Directors in the securities of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were deemed or taken to have under such provisions of the SFO, or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by directors, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the shares of the Company

Name of director	Corporate interest	Percentage of shareholding
Mr. Siu Luen Fat	170,400,000 *	42.6%
Mr. Siu Kin Fat	170,400,000 *	42.6%
Mr. Siu Kuen Fat	170,400,000 *	42.6%
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 170,400,000 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 had, as at 31 December 2003, any interests or short positions in the securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were deemed or taken to have under such provisions of the SFO, or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Share option scheme" below, at no time during the period under review was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SHARE OPTION SCHEME

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

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

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSABLE UNDER THE SFO

So far is known to any Director of the Company, as at 31 December 2003, shareholders (other than Directors of the Company) who had interests or short positions in the securities of the Company which would fall to be disclosed to the Company under provisions of 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 were as follows:

Name	Number of shares held	Percentage of shareholding
Coxwell Corp. (Note 1)	170,400,000	42.6%
Baserich International Limited (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 170,400,000 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 Po and Mr. Lee Tat Chiu have a beneficial interest of 34.2% and 51.2% respectively in Baserich International Limited. Accordingly, each of Mr. Hung Kam Po 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 Amerose International Limited is interested pursuant to the SFO.

Save as disclosed above, as at 31 December 2003, the Company had not been notified by any persons (other than Directors of the Company) who had interests or short positions in the securities of the Company which would fall to be disclosed to the Company under provisions of 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.

SPONSOR'S INTEREST

Kim Eng Capital (Hong Kong) Limited (the "Sponsor") has confirmed that, as at 31 December 2003, to its best knowledge, none of the Sponsor or its associates, directors or employees have or may have any interest in any class of securities of the Company or any of member company of the Group (including options or rights to subscribe for such securities).

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

COMPETITION AND CONFLICT OF INTERESTS

None of the Directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interests with the Group during the six months ended 31 December 2003.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 31 December 2003.

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 during the six months ended 31 December 2003.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.23 and 5.24 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group and to review the Company's annual reports and accounts, and half yearly and quarterly reports. The audit committee comprises the following members, Ms. Chiu Kam Hing, Kathy, Dr. Cheung Wai Bun, Charles, Mr. Kan Ching Duen (resigned on 15 January 2004), and Mr. Li Chi Fai (appointed on 9 February 2004), who are the independent non-executive Directors. The Group's unaudited results for the six months ended 31 December 2003 have been reviewed by the audit committee, who was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

By order of the Board
Siu Luen Fat
Chairman

Hong Kong, 11 February 2004