



B&S
ENTERTAINMENT HOLDINGS LIMITED

中大娛樂控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Third Quarterly 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.

QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 31 MARCH 2004 (UNAUDITED)

The board (the "Board") of Directors of B&S Entertainment Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months and the nine months ended 31 March 2004 together with comparative unaudited figures for the corresponding period of 2003 as follows:

	Notes	For the three months ended 31 March		For the nine months ended 31 March	
		2004 (unaudited) HK\$'000	Restated 2003 (unaudited) HK\$'000	2004 (unaudited) HK\$'000	Restated 2003 (unaudited) HK\$'000
TURNOVER	2	5,305	6,668	15,500	19,884
Cost of sales		(983)	(3,998)	(5,970)	(11,953)
Gross profit		4,322	2,670	9,530	7,931
Other income		4	45	34	94
Selling and distribution costs		(312)	(705)	(1,231)	(2,087)
Administrative expenses		(877)	(1,490)	(3,467)	(4,274)
PROFIT FROM OPERATING ACTIVITIES		3,137	520	4,866	1,664
Finance costs		(186)	(166)	(554)	(259)
PROFIT BEFORE TAX		2,951	354	4,312	1,405
Tax	3	(533)	(90)	(849)	(342)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>2,418</u>	<u>264</u>	<u>3,463</u>	<u>1,063</u>
EARNINGS PER SHARE	4				
Basic		<u>0.60 cent</u>	<u>0.07 cent</u>	<u>0.87 cent</u>	<u>0.27 cent</u>
Diluted		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

Notes:

1. Group reorganisation and basis of presentation

Group reorganisation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 11 April 2002. Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of its shares on the GEM of the Exchange on 6 August 2002, the Company became the holding company of the companies now comprising the Group on 22 July 2002. Further details of the Group Reorganisation are set out in the Company's prospectus (the "Prospectus") dated 29 July 2002.

Basis of presentation

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

All significant transactions and balances among the companies comprising the Group have been eliminated on consolidation. The unaudited consolidated results have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong.

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 carry forward 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.

2. Turnover

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

	For the three months ended 31 March		For the nine months ended 31 March	
	2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000	2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000
Licensing of film rights	5,303	6,632	15,107	19,812
Sub-licensing of film rights	—	—	380	—
Sale of videos and video compact discs	2	36	13	72
	<u>5,305</u>	<u>6,668</u>	<u>15,500</u>	<u>19,884</u>

3. Tax

	For the three months ended 31 March		For the nine months ended 31 March	
	2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000	2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000
Current				
— Hong Kong	—	—	6	13
Deferred				
— Hong Kong	533	90	843	329
	533	90	849	342

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 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.

4. Earnings per share

The basic earnings per share for the three months and nine months ended 31 March 2004 are calculated based on the unaudited consolidated net profit from ordinary activities attributable to shareholders of the Company for the three months and nine months ended 31 March 2004 of approximately HK\$2,418,000 and HK\$3,463,000 respectively (2003 as restated: approximately HK\$264,000 and HK\$1,063,000 respectively) and on a weighted average number of approximately 400,000,000 shares and 400,000,000 shares respectively (2003: 400,000,000 shares and 392,992,701 shares respectively deemed to have been issued and issuable during the period under review on the assumption that the Group Reorganisation and the subsequent capitalisation issue of 330,000,000 shares of the Company had been effective on 1 July 2002).

Diluted earnings per share for the three months and nine months ended 31 March 2004 and 2003 has not been disclosed as no diluting event existed during these periods.

5. Movement of reserves

	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	—	17,590	(16,175)	1,415
Prior year adjustment: SSAP 12				
— restatement of deferred tax assets	—	—	2,689	2,689
At 1 July 2002, as restated	—	17,590	(13,486)	4,104
Issuance of shares	29,400	—	—	29,400
Capitalisation issue of shares	(3,300)	—	—	(3,300)
Share issuance expenses	(6,073)	—	—	(6,073)
Profit for the period (restated)	—	—	1,063	1,063
At 31 March 2003	<u>20,027</u>	<u>17,590</u>	<u>(12,423)</u>	<u>25,194</u>
At 1 July 2003, as previously reported	20,027	17,590	(14,115)	23,502
Prior year adjustment: SSAP 12				
— restatement of deferred tax assets	—	—	2,471	2,471
At 1 July 2003, as restated	20,027	17,590	(11,644)	25,973
Profit for the period	—	—	3,463	3,463
At 31 March 2004	<u>20,027</u>	<u>17,590</u>	<u>(8,181)</u>	<u>29,436</u>

The capital reserve of the Group represents the followings:

- (i) the difference between the aggregate nominal value of the share capital of subsidiaries acquired by the Company and the nominal value of the share capital of the Company issued as consideration in exchange therefor of HK\$157,000; and
- (ii) the surplus of HK\$17,433,000 arising from allotment and issuance of 15,000 shares of US\$1 each of B & S Group Limited, credited as fully paid to set off against loans of HK\$17,550,000 owing to the executive Directors pursuant to the Group Reorganisation as set out in the Prospectus.

6. Dividends

The Directors do not recommend the payment of an interim dividend for the nine months ended 31 March 2004 (2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Operation Review

The Group's unaudited turnover for the three months ended 31 March 2004 amounted to approximately HK\$5.3 million (2003: approximately HK\$6.7 million), representing a decrease of around 20.9% over the corresponding previous quarter. Such decrease was mainly attributable to the drop in the income from licensing of film rights.

The gross profit margin of the Group was approximately 81.5%, representing an increase of approximately 41.5% as compared to that of the corresponding previous quarter. The significant increase in gross profit margin was mainly contributed from licensing of film rights to distributors in Mainland China and East Asia for which the film cost has already been fully amortised in prior years.

Administrative expenses decreased by approximately HK\$0.6 million to approximately HK\$0.9 million and the selling and distribution costs decreased by approximately HK\$0.4 million to approximately HK\$0.3 million. These were mainly because of the decrease in commission paid to distributors and distribution fee paid to media companies.

Due to the net effect of the above, the net profit from ordinary activities attributable to shareholders of the Company therefore significantly increased from approximately HK\$0.3 million as restated to approximately HK\$2.4 million while the net profit margin increased from approximately 4.0% to approximately 45.6%.

Outlook

Looking ahead, the economic growth of the Mainland China has remained robust and the global economic environment continues to be generally sanguine. Furthermore, there has been significant improvement in consumer sentiment. The Group envisages the growing demand for video products such as digital versatile discs, video compact discs, video tapes, cinema movies, pay and non-pay TV.

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. have entered into a non-legally bound letter of intent on film production. More films will be produced in the next few months after the approval of scripts by the authority of Mainland China.

Hence, the Group will increase the film production of 35mm format movies and digital video ("DV") format movies in the coming months. With our experience in the DV format movies 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.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES

As at 31 March 2004, 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 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 5.46 to 5.66 of the GEM Listing Rules relating to securities transactions by directors, to be notified to the Company and the 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%

- * 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., which owns 170,400,000 ordinary shares of the Company.
- ** The 40,800,000 shares are registered in the name of Baserich International Limited. 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 March 2004, 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 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 Exchange pursuant to Rules 5.46 to 5.66 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, independent non-executive Directors and employees of the Group, and suppliers of goods or services to the Group.

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

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSABLE UNDER THE SFO

So far is known to any Director, as at 31 March 2004, shareholders (other than Directors) 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. (<i>Note 1</i>)	170,400,000	42.6%
Baserich International Limited (<i>Note 2</i>)	40,800,000	10.2%
Mr. Lee Tat Chiu (<i>Note 2</i>)	40,800,000	10.2%
Amerose International Limited (<i>Note 3</i>)	33,200,000	8.3%
Mr. Cheng Wing Ming (<i>Note 3</i>)	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 March 2004, the Company had not been notified by any persons (other than Directors) 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

As at the date of this report, REXCAPITAL (Hong Kong) Limited (the "Sponsor") has confirmed that 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).

As certain licensed persons of Kim Eng Capital (Hong Kong) Limited ("Kim Eng"), who were eligible to act as principal and assistant supervisors (as defined in the GEM listing Rules), would be de-registered as license persons of Kim Eng, Kim Eng would no longer comply with the eligibility criteria as set out in Chapter 6 of the GEM Listing Rules with effect from 30 March 2004 and had to cease its role as continuing sponsor of the Company.

The Company has appointed REXCAPITAL (Hong Kong) Limited to replace Kim Eng and act as continuing sponsor of the Company. Pursuant to a sponsor agreement between the Company and the Sponsor dated 25 March 2004, the Sponsor is entitled to receive a fee for acting as the Company's sponsor for the period from 1 April 2004 (date of commencement of the sponsor agreement) 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 nine months ended 31 March 2004.

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 nine months ended 31 March 2004.

COMPLIANCE WITH RULES 5.34 TO 5.45 OF THE GEM LISTING RULES

The Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules during the nine months ended 31 March 2004.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group and to review the Company's annual reports and accounts, and half yearly and quarterly reports. The audit committee comprises three members, Ms. Chiu Kam Hing, Kathy, Dr. Cheung Wai Bun, Charles and Mr. Li Chi Fai, who are the independent non-executive Directors. The Group's unaudited results for the nine months ended 31 March 2004 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, 5 May 2004