



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 2004

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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. Li Chi Fai FCPA, FCCA

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Ms. Yuen Mei Kuen CPA, FCCA

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. Li Chi Fai FCPA, FCCA

AUDITORS

CCIF CPA Limited
Certified Public Accountants

PRINCIPAL BANKER

CITIC Ka Wah Bank Limited

SPONSOR

South China Capital 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 2004.

FINANCIAL RESULT

For the year ended 30 June 2004, the Group's net profit attributable to Shareholders was approximately HK\$1.58 million as compared to approximately HK\$1.84 million in the previous year, representing a decrease of approximately 14.1%. Turnover decreased from approximately HK\$28.0 million in the previous year to approximately HK\$20.6 million this year, representing a decrease of approximately 26.4%.

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 2004.

OVERVIEW

For the year ended 30 June 2004, the Group has launched 7 DV format movies to the market. They were Dream & Desire, Bless The Child, New's Heart, To My Dearest Father, Zero, Man in Blues and Salt and Pepper.

Due to the preparation of application and following up of approval of scripts by the authority of the People's Republic of China (the "PRC"), less movies were launched during the year. However, the Group continues to explore more opportunities to open the market for the distribution of the film rights, especially to different areas in the PRC. During the year, the Group successfully increased the revenue generated from the PRC by approximately 127% as compared with last year.

PROSPECTS

With the economic growth and rising standard of living of the PRC, we believe that the Group can benefit from the growing demand from PRC people for video products, especially on areas of home video, pay and non-pay TV products.

Chairman's Statement

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. Together with our experience and expertise in management and distribution, we are confident that the Group can maintain a high quality of film products and capture a greater share of the DV film market.

The Group will also continue to expand our distribution network both in local and overseas markets. We will benefit from the growing market of satellite television channel and pay TV channel.

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, 27 September 2004

Management Discussion and Analysis

OPERATION REVIEW

During the year, 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 only 7 DV format movies, the number of which is less than one-third of DV format movies launched in the whole of last year. This was mainly due to the time used in the preparation work and following up the approval of scripts by the authority of the PRC. For this reason, most of the proposed movie production was delayed.

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"). 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. Although the production of these Movies was delayed due to the time used in the approval of scripts by the authority of the PRC, it is expected that the distribution and licensing of film rights of these Movies in the coming years will bring in satisfactory growth in both turnover and profit of the Group.

For the year under review, the Group's turnover decreased to approximately HK\$20.6 million as compared to approximately HK\$28.0 million in the previous year, representing a decrease of approximately 26%. The decrease was mainly attributable to the effect of a decrease in the revenue from licensing of film rights by approximately HK\$7.5 million. The Group has launched fewer movies to the market during the year. On the other hand, with the economic growth of the PRC, revenue generated from the PRC increased from approximately 19% of total revenue of last year to approximately 57% of total revenue of current year.

Management Discussion and Analysis

The gross profit margin of the Group was approximately 62% for the year under review, representing an increase of approximately 23% as compared to that of previous year. The significant improvement in gross profit margin was mainly contributed from the increase in licensing of film rights to distributors in the PRC and Asia for which the film cost has already been fully amortised in prior years.

Administrative expenses for the year under review increased to approximately HK\$8.6 million as compared to approximately HK\$5.5 million in the last year. The increase was mainly due to the provision for doubtful debts of approximately HK\$3.5 million in current year. Besides, there was no significant changes in other administrative expenses due to the implementation of effective cost control of the Company. With the decrease in number of digital movie launched during the year, selling and distribution costs decreased to approximately HK\$1.4 million from approximately HK\$3.0 million in the previous year. These were due to 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 decreased slightly, for the year ended 30 June 2004, from approximately HK\$1.8 million to approximately HK\$1.6 million while the net profit margin increased from approximately 6.6% to approximately 7.7%.

Management Discussion and Analysis

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 YEAR ENDED 30 JUNE 2004

Proposed plans as stated in the Prospectus	Actual progress
1. Enhancement of production equipment	
a. Continue to expand the production capacity by procurement of equipment with the latest technologies at the relevant time	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
b. Procure equipment for implantation of special effects for the movies to be produced by the Group	b. not yet proceeded as feasibilities studies concluded that these equipment would not suite the Group's production needs in view of the cost, performance, and the Group's present filming technology requirements
2. Improvement of the cast quality of movies	
a. Continue to employ additional cast on project basis for the Group's movies to be produced	a. implemented as planned

Management Discussion and Analysis

Proposed plans as stated in the Prospectus	Actual progress
3. Sales and marketing	
a. Continue to attend tradeshows and film festivals	a. attended various tradeshows and films festivals in Europe and Asia
b. Expand the distribution networks for the distribution of the copyright/film rights to the Group's movies to North America, the PRC and Europe through licensing of movies copyright/film rights	b. discussed with several distributors through tradeshows to explore co-operation opportunity, no agreement has yet been reached
c. Continue to expand the sales and distribution teams by employing two additional staff	c. employed one new staff only as lack of suitable candidate with relevant experience
d. Continue to expand the network for distribution of the movies produced by the Group to cable television channel in Europe, the PRC and North America	d. implemented as planned
4. Development and training of human resources	
a. Continue to organise training courses which are relevant to the development of the films industry	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

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 negotiate 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. Continue to invest in DV screening equipment jointly with 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 approximately 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 2004, 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 2004 HK\$'million	Actual fundings utilised up to 30 June 2004 HK\$'million	<i>Notes</i>
Enhancement of production equipment	5.5	—	<i>(i)</i>
Improvement of the cast quality of movies	2.5	0.7	<i>(iii)</i>
Sales and marketing	4.5	1.9	<i>(iv)</i>
Development and training of human resources	3.0	—	<i>(i)</i>
Enhancement of broadcasting in cinemas and development of new business	4.5	—	<i>(ii)</i>
	<hr/>	<hr/>	
Total	<u>20.0</u>	<u>2.6</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.
- (iii) The Group has produced fewer movies than as scheduled.
- (iv) The Group has discussed with several distributors to expand the distribution network, but no agreement has yet been reached. Also, only one new staff was employed due to lack of suitable candidate with relevant experience.

During the year ended 30 June 2004, 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, bank overdraft facilities provided by its bankers in Hong Kong and other short-term loans provided by its finance companies.

As at 30 June 2004, the Group had total current assets of approximately HK\$54.8 million (2003: HK\$46.9 million), including cash and bank balances of approximately HK\$0.6 million (2003: HK\$1.1 million), pledged deposits of HK\$10.0 million (2003: HK\$10.0 million), film rights and films in progress of approximately HK\$25.2 million (2003: HK\$21.6 million) and prepayment, deposits and other receivables of approximately HK\$10.0 million (2003: HK\$11.7 million). The Group has aggregate outstanding borrowings of approximately HK\$32.4 million (2003: HK\$26.4 million). It comprised of a bank overdraft of approximately HK\$17.4 million (2003: HK\$17.4 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 (2003: 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), short-term loan of HK\$6.0 million (2003: Nil) and advances due to a Director of approximately HK\$9.0 million (2003: HK\$9.0 million).

Management Discussion and Analysis

GEARING RATIO

The gearing ratio, representing borrowings divided by shareholders equity, was approximately 1.03 as at 30 June 2004 (2003 as restated: 0.88). The increase in gearing ratio was due to the financing by short-term loan of HK\$6.0 million during the year.

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 2003 and 30 June 2004, 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 (2003: HK\$10.0 million).

At 30 June 2004, all the undertaking, property and assets of the Company were pledged to an independent third party as security for a short-term borrowing amounting to HK\$5.0 million for working capital of the Group. These facilities are also supported by corporate guarantees executed by the ultimate holding company and personal guarantees executed by certain directors of the Company (2003: Nil).

CONTINGENT LIABILITIES

Best Faith (Hong Kong) Limited and B & S Film Distribution Company Limited, subsidiaries of the Company, have been named as the defendants in a High Court action in respect of an alleged breach of contractual undertakings. The directors of the Company, after having consulted its legal counsel, are of the opinion that the two subsidiaries have good grounds to defend on the case and they should not be liable to the claims and, accordingly, no provision for any potential liability has been made in the financial statements for the year ended 30 June 2004 (2003: Nil).

Management Discussion and Analysis

SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS

The Group did not have any significant investments for the year ended 30 June 2004 (2003: 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 2004.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

There had been no material acquisitions and disposals of subsidiaries during the year (2003: Nil).

EMPLOYEES

As at 30 June 2004, the Group had 14 full-time staff (2003: 13). The total of employee remuneration, including that of the Directors, for the year under review and last corresponding year amounted respectively to approximately HK\$3.9 million and approximately HK\$3.6 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

We foresee that the economic growth in the PRC will continue and there will be growing demand for audio and video products. The Group will continue to expand its distribution network in order to capture a larger market share in this field. With our experience and expertise, we will continue to achieve the objective to become an active movie producer and distributor of Chinese language movies in the Greater China region and other countries.

Biography of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Siu Luen Fat, aged 45, 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 53, 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 that 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 48, 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 52, 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 26 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 55, 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 68, 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 38

Biography of Directors and Senior Management

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. Li Chi Fai, aged 47, was appointed as an Independent non-executive Director in February 2004. Mr. Li is a proprietor of a Certified Public Accountants firm in Hong Kong. He has over 20 years of extensive experience in auditing, litigation support, tax investigation and company incorporation. He is a fellow member of Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of the Chartered Certified Accountants and an associate member of the Taxation Institute of Hong Kong.

SENIOR MANAGEMENT

Ms. Man Ka Bo, aged 41, is the administration director of the Group. Ms. Man is mainly responsible for the administration of the Group and she has over 16 years of experience in corporate management and administration. Ms. Man obtained a diploma in business management jointly issued by the Hong Kong Polytechnic University (previous known as the Hong Kong Polytechnic) and the Hong Kong Management Association in 1996. Ms. Man has been appointed to the current position in July 1997.

Ms. Yuen Mei Kuen, aged 32, is the qualified accountant and company secretary of the Company. She is mainly responsible for the accounting and financial management of the Company. Ms. Yuen is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

Mr. Cheung Siu Kin, aged 36, 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 11 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 herewith their report and the audited financial statements of the Company and the Group for the year ended 30 June 2004.

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 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 25 to 60.

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

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years is set out on pages 61 to 62. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Movements in the Company's share capital and share options during the year are set out in notes 24 and 25 to the financial statements.

There were no changes in the Company's share capital and share options during the year.

POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 29 to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

The 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

Movements in reserves of the Company and the Group during the year are set out in the consolidated statement of changes in equity on pages 28 to 29.

DISTRIBUTABLE RESERVES

As at 30 June 2004, the Company's reserve available for distribution amounted to HK\$18,417,000 (2003: 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

For the year ended 30 June 2004, sales of the Group's five largest customers accounted for approximately 89% of the total sales for the year and sales to the largest customer included therein amounted to approximately 41%.

Purchases from the Group's five largest suppliers accounted for 100% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 94%.

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

DIRECTORS

The Directors during the financial 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

Mr. Li Chi Fai

(appointed on 9 February 2004)

Mr. Kan Ching Duen

(resigned on 15 January 2004)

In accordance with Articles 87(1) and (2) and 88 of the Company's Articles of Association, Mr. Hung Kam Po and Dr. Cheung Wai Bun, Charles 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 and the senior management of the Group are set out on pages 13 to 15 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 2004 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 notes 20 and 22 and the related party transactions disclosed in note 28 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 2004, 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 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 Exchange and the Company as required by Rule 5.48 to 5.67 of the Rules Governing the Listing of Securities on the GEM of the Exchange (the "GEM Listing Rules") were as follows:

Name of director	Corporate interest	Percentage of holding
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 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, or as otherwise notified to the Company and the Exchange pursuant to the required standard of dealings by directors of the Company as referred to in Rule 5.48 to 5.67 of the GEM Listing Rules.

Report of the Directors

As disclosed in note 29 to the financial statements, most of their above interests were disposed of subsequent to the balance sheet date.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as the share option scheme disclosures in note 25 to the financial statements, 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

Details of the Company's share option scheme (the "Scheme") are set out in note 25 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 2004, 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)	170,400,000	42.6%
Mr. Siu Luen Fat (Note 1)	170,400,000	42.6%
Mr. Siu Kin Fat (Note 1)	170,400,000	42.6%
Mr. Siu Kuen Fat (Note 1)	170,400,000	42.6%
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 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, 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 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.

As disclosed in note 29 to the financial statements, most of their shareholding were disposed of subsequent to the balance sheet date.

SPONSOR'S INTEREST

South China Capital 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).

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 has to cease its role as continuing sponsor of the Company. The Company has appointed RexCapital (Hong Kong) Limited (“RexCapital”) to replace Kim Eng and act as continuing sponsor of the Company. However, due to major personnel changes at RexCapital, the Company and RexCapital have mutually agreed to terminate the engagement of RexCapital as the continuing sponsor to the Company with effect from 1 August 2004.

The Company has appointed the Sponsor to replace RexCapital and act as continuing sponsor of the Company. Pursuant to a sponsor agreement between the Company and the Sponsor dated 1 August 2004, the Sponsor is entitled to receive a fee for acting as the Company’s sponsor for the period from 1 August 2004 (date of commencement of the sponsor agreement) to 30 June 2005.

CONNECTED AND RELATED PARTY TRANSACTIONS

Significant related party transactions entered into by the Group during the year ended 30 June 2004, which do not constitute connected transactions under the GEM Listing Rules, are disclosed in note 28 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, 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 would not exceed HK\$2 million for the financial year ended 30 June 2004.

The Directors (including the independent non-executive Directors) 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 5.34 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 year ended 30 June 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, half yearly and quarterly reports. The audit committee comprises three members, Ms. Chiu Kam Hing, Kathy, Dr. Cheung Wai Ban, Charles, Mr. Li Chi Fai (appointed on 9 February 2004) and Mr. Kan Ching Duen (resigned on 15 January 2004), who are the independent non-executive Directors. The Group's audited results for the year ended 30 June 2004 have been reviewed by the 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. During the year, four audit committee meetings were held for reviewing the Company's financial statements and providing advice and recommendations to the Board.

AUDITORS

During the year, Ernst & Young, who acted as auditors of the Company for the year ended 30 June 2003 and 2002, resigned. CCIF CPA Limited (formerly known as Charles Chan, Ip & Fung CPA Ltd.) were appointed as auditors of the Company to fill up the casual vacancy on 16 August 2004.

A resolution for the re-appointment of CCIF CPA Limited as auditors of the company for the ensuing year will be proposed at the forthcoming annual general meeting.

On behalf of the board

Siu Luen Fat
Chairman

Hong Kong, 27 September 2004

Report of the Auditors



CCIF

To the members

B&S Entertainment Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 25 to 60 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 Institute of Certified Public Accountants. An audit includes 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 2004 and of its 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.

CCIF CPA Limited

Certified Public Accountants

Hong Kong, 27 September 2004

Consolidated Income Statement

Year ended 30 June 2004

For the year ended
30 June

	Notes	2004 HK\$'000	As restated 2003 HK\$'000
TURNOVER	3	20,593	28,023
Cost of sales		<u>(7,724)</u>	<u>(17,118)</u>
Gross profit		12,869	10,905
Other revenue	4	51	118
Selling and distribution costs		<u>(1,371)</u>	<u>(3,005)</u>
Administrative expenses		<u>(8,570)</u>	<u>(5,501)</u>
PROFIT FROM OPERATING ACTIVITIES	6	2,979	2,517
Finance costs	7	<u>(750)</u>	<u>(438)</u>
PROFIT BEFORE TAXATION		2,229	2,079
Taxation	10	<u>(651)</u>	<u>(236)</u>
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	11	<u><u>1,578</u></u>	<u><u>1,843</u></u>
EARNINGS PER SHARE	13		
Basic		<u><u>HK0.39 cent</u></u>	<u><u>HK0.47 cent</u></u>
Diluted		<u><u>N/A</u></u>	<u><u>N/A</u></u>

Consolidated Balance Sheet

30 June 2004

	Note	2004 HK\$'000	As restated 2003 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	30	51
Film rights and films in progress	15	3,946	3,881
Prepayments		5,600	5,600
Deferred tax assets	23	1,830	2,481
		<u>11,406</u>	<u>12,013</u>
Current assets			
Film rights and films in progress	15	25,186	21,588
Accounts receivable	17	9,038	2,510
Prepayments, deposits and other receivables		9,958	11,688
Pledged deposits	18	10,000	10,000
Cash and cash equivalents	18	633	1,149
		<u>54,815</u>	<u>46,935</u>
LIABILITIES			
Current liabilities			
Deposits received		1,212	923
Accounts payable	19	89	659
Accrued liabilities and other payables		936	948
Tax payable		16	27
Bank overdrafts, secured	21	17,361	17,362
Short term loans	22	6,000	—
		<u>25,614</u>	<u>19,919</u>
Net current assets		<u>29,201</u>	<u>27,016</u>
Total assets less current liabilities		<u>40,607</u>	<u>39,029</u>
Non-current liability			
Due to a director	20	9,046	9,046
NET ASSETS		<u><u>31,561</u></u>	<u><u>29,983</u></u>

Consolidated Balance Sheet

30 June 2004

	Note	2004 HK\$'000	As restated 2003 HK\$'000
CAPITAL AND RESERVES			
Issued capital	24	4,000	4,000
Reserves		27,561	25,983
		<u>31,561</u>	<u>29,983</u>

Siu Luen Fat
Director

Siu Kuen Fat
Director

Consolidated Statement of Changes in Equity

Year ended 30 June 2004

Group

	Issued capital HK\$'000	Share premium account HK\$'000	Capital reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 July 2002					
— As originally stated	100	—	17,590	(16,175)	1,515
— Prior period adjustment	—	—	—	2,698	2,698
— As restated	100	—	17,590	(13,477)	4,213
Issue of shares	600	29,400	—	—	30,000
Capitalisation issue of shares	3,300	(3,300)	—	—	—
Share issue expenses	—	(6,073)	—	—	(6,073)
Net profit for the year (restated)	—	—	—	1,843	1,843
At 30 June 2003 and 1 July 2003	4,000	20,027	17,590	(11,634)	29,983
Net profit for the year	—	—	—	1,578	1,578
At 30 June 2004	<u>4,000</u>	<u>20,027</u>	<u>17,590</u>	<u>(10,056)</u>	<u>31,561</u>

Consolidated Statement of Changes in Equity

Year ended 30 June 2004

Company

	Issued capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July 2002	100	—	—	100
Issue of shares	600	29,400	—	30,000
Capitalisation issue of shares	3,300	(3,300)	—	—
Share issue expenses	—	(6,073)	—	(6,073)
Net loss for the year	—	—	(720)	(720)
At 30 June 2003 and 1 July 2003	4,000	20,027	(720)	23,307
Net loss for the year	—	—	(890)	(890)
At 30 June 2004	<u>4,000</u>	<u>20,027</u>	<u>(1,610)</u>	<u>22,417</u>

Consolidated Cash Flow Statement

Year ended 30 June 2004

	2004 HK\$'000	2003 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	2,229	2,079
Adjustments for:		
Finance costs	750	438
Interest income	(32)	(65)
Depreciation	33	71
Provision for doubtful debts	3,490	—
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	6,470	2,523
Increase in film rights and films in progress	(3,663)	(18,546)
Increase in accounts receivable	(10,018)	(2,180)
Decrease/(increase) in prepayments, deposits and other receivables	1,730	(10,262)
Increase in deposits received	289	430
(Decrease)/increase in accounts payable	(570)	629
Decrease in accrued liabilities and other payables	(12)	(124)
Decrease in an amount due to a related company	—	(1,320)
Decrease in an amount due to a director	—	(571)
CASH USED IN OPERATIONS	(5,774)	(29,421)
Hong Kong profits tax paid	(11)	(2)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(5,785)	(29,423)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	32	65
Purchases of property, plant and equipment	(12)	(29)
NET CASH INFLOW FROM INVESTING ACTIVITIES	20	36
CASH FLOWS FROM FINANCING ACTIVITIES		
New loans raised	6,000	—
Interest paid	(750)	(438)
Proceeds from issue of share capital	—	30,000
Share issue expenses	—	(6,073)
NET CASH INFLOW FROM FINANCING ACTIVITIES	5,250	23,489
NET DECREASE IN CASH AND CASH EQUIVALENTS	(515)	(5,898)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	(6,213)	(315)
CASH AND CASH EQUIVALENTS AT END OF YEAR	(6,728)	(6,213)

Consolidated Cash Flow Statement

Year ended 30 June 2004

	Notes	2004 HK\$'000	2003 HK\$'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	18	541	1,089
Non-pledged time deposits with original maturity of less than three months when acquired	18	92	60
Time deposits with original maturity of less than three months when acquired, pledged as security for bank overdraft facilities	18	10,000	10,000
Bank overdrafts, secured	21	(17,361)	(17,362)
		<u>(6,728)</u>	<u>(6,213)</u>

Balance Sheet

30 June 2004

	Notes	2004 HK\$'000	2003 HK\$'000
ASSETS			
Non-current assets			
Interests in subsidiaries	16	<u>17,443</u>	<u>13,260</u>
Current assets			
Prepayments, deposits and other receivables		60	60
Pledged deposits	18	10,000	10,000
Cash and cash equivalents	18	<u>95</u>	<u>67</u>
		<u>10,155</u>	<u>10,127</u>
LIABILITIES			
Current liabilities			
Accrued liabilities and other payables		181	80
Short term loan, secured		<u>5,000</u>	<u>—</u>
		<u>5,181</u>	<u>80</u>
Net current assets		<u>4,974</u>	<u>10,047</u>
NET ASSETS		<u><u>22,417</u></u>	<u><u>23,307</u></u>
CAPITAL AND RESERVES			
Issued capital	24	4,000	4,000
Reserves		<u>18,417</u>	<u>19,307</u>
		<u><u>22,417</u></u>	<u><u>23,307</u></u>

Siu Luen Fat
Director

Siu Kuen Fat
Director

1. BASIS OF PREPARATION

(a) General

The Company was incorporated in the Cayman Islands on 11 April 2002 as an exempted company with limited liability under the Companies Law of the Cayman Islands.

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.

In the opinion of the Directors, Coxwell Corp., a company incorporated in the British Virgin Islands, is the Company's ultimate holding company at 30 June 2004.

(b) Principal Activities

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries have not changed during the year and involve in the production and sales of videos and films, and the licensing of video and copyrights/film rights. The principal activities of the subsidiaries are set out in note 16 to the financial statements.

(c) Basis of 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 2003 and 2004 include the results and cash flows of the Company and its subsidiaries with effect from 1 July 2002 or since their respective dates of incorporation, where this is a shorter period.

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

Notes to Financial Statements

30 June 2004

1. BASIS OF PREPARATION *(Cont'd)*

(c) Basis of Consolidation *(Cont'd)*

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.

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with Statements of Standard Accounting Practice ("SSAPs") and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements are prepared under the historical cost convention.

In the current year, the Group has adopted, for the first time, the revised SSAP 12 "Income taxes" issued by the HKICPA.

Any significant impact of adopting this SSAP has been shown on the respective note to the financial statements. A summary of the significant accounting policies adopted by the Group is set out below.

(a) Revenue Recognition

(i) *Sale of goods*

Revenue is recognised 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;

(ii) *Income from the licensing and sub-licensing of distribution rights over films*

Revenue is recognised when the Group's entitlement to such payments has been established, which, subject to the terms of the relevant agreements, is usually upon delivery of the master tapes to the customers; and

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(a) Revenue Recognition (Cont'd)

(iii) Interest income

Interest income is recognised on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

(b) Subsidiaries

A subsidiary is a company in which the company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors. Subsidiaries are considered to be controlled if the company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

Investments in subsidiaries in the balance sheet are stated at cost less provision for impairment losses. The results of subsidiaries are accounted to the extent of dividends received and receivable.

(c) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and 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 income statement 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 asset, the expenditure is capitalised as an additional cost of that asset.

The gain or loss on disposal or retirement of an asset recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Notes to Financial Statements

30 June 2004

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(d) Depreciation

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 are as follows:

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

(e) Operating Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under operating leases are charged to the income statement on a straight-line basis over the lease terms.

(f) Film Rights, Films in Progress and Sub-Licensing Rights

(i) *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.

(ii) *Films in progress*

Films in progress are stated at cost less 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.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)**(f) Film Rights, Films in Progress and Sub-Licensing Rights (Cont'd)****(iii) 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 income statement 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 exceeds their expected future revenue.

(g) Impairment of Assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment; and
- investments in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

Notes to Financial Statements

30 June 2004

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(g) Impairment of Assets (Cont'd)

(ii) Reversals of impairment losses

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(h) Trade Receivable

Provision is made against trade receivable to the extent that they are considered to be doubtful. Trade receivable in the balance sheet is stated net of such provision.

(i) Cash and Cash Equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand, 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.

(j) Deferred Taxation

Deferred taxation is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)**(j) Deferred Taxation (Cont'd)**

Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised.

Deferred taxation was provided at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the income statement to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. 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.

As detailed in the statement of changes in equity, opening accumulated loss at 1 July 2002 and 2003 have been reduced by HK\$2,698,000 and HK\$2,481,000 respectively. These changes have resulted in an increase in deferred tax assets at 30 June 2003 by HK\$2,481,000 (2002: HK\$2,698,000).

(k) Provisions and Contingent Liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(l) Translation of Foreign Currencies

Transactions in foreign currencies during the year are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the income statement.

The balance sheet of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the income statement is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(m) Employee Benefits

(i) Retirement 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 income statement 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.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)**(m) Employee Benefits (Cont'd)****(ii) 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 income statement 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.

(n) 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, or vice versa. 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.

Notes to Financial Statements

30 June 2004

3. TURNOVER

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

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Licensing of film rights	20,200	27,685
Sub-licensing of film rights	380	250
Sale of videos and video compact discs	13	88
	<u>20,593</u>	<u>28,023</u>

4. OTHER REVENUE

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interest income	32	65
Others	19	53
	<u>51</u>	<u>118</u>

5. 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.

5. 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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment revenue:										
Sales to external customers	<u>455</u>	<u>5,144</u>	<u>11,842</u>	<u>5,213</u>	<u>5,514</u>	<u>10,921</u>	<u>2,782</u>	<u>6,745</u>	<u>20,593</u>	<u>28,023</u>
Segment results	<u>(315)</u>	<u>405</u>	<u>4,173</u>	<u>456</u>	<u>(1,857)</u>	<u>948</u>	<u>927</u>	<u>590</u>	<u>2,928</u>	<u>2,399</u>
Other revenue									<u>19</u>	<u>53</u>
Interest income									<u>32</u>	<u>65</u>
Finance costs									<u>(750)</u>	<u>(438)</u>
Profit before taxation									<u>2,229</u>	<u>2,079</u>
Taxation									<u>(651)</u>	<u>(236)</u>
Profit attributable to shareholders									<u>1,578</u>	<u>1,843</u>

Notes to Financial Statements

30 June 2004

6. PROFIT FROM OPERATING ACTIVITIES

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

	For the year ended 30 June	
	2004 HK\$'000	2003 HK\$'000
Cost of film and sub-licensing rights*	7,709	17,029
Cost of inventories sold	15	89
Depreciation	33	71
Provision for doubtful debts	3,490	—
Auditors' remuneration	200	470
Staff costs (excluding directors' remuneration in (Note 8)):		
Wages and salaries	2,487	2,205
Retirement scheme contributions	95	83
	<u>2,582</u>	<u>2,288</u>
Minimum lease payments under operating leases in respect of land and buildings to:		
— a related company (Note 28)	168	168
— an independent third party	—	298
	<u>168</u>	<u>466</u>

- * The cost of film and sub-licensing rights for the year included amortisation of film rights of HK\$7,002,000 (2003: HK\$16,860,000) and is included in cost of sales in the consolidated income statement.

7. FINANCE COSTS

	Group	
	2004 HK\$'000	2003 HK\$'000
Interest on bank overdrafts wholly repayable within one year	691	438
Interest on short-term loan	59	—
	<u>750</u>	<u>438</u>

8. DIRECTORS' REMUNERATION

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Fees	80	80
Other emoluments:		
Salaries, allowances and benefits in kind	1,200	1,200
Retirement scheme contributions	30	30
	<u>1,230</u>	<u>1,230</u>
	<u>1,310</u>	<u>1,310</u>

All the fees were payable to the non-executive Director and the independent non-executive Directors for both years.

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 2003 and 2004.

Notes to Financial Statements

30 June 2004

8. DIRECTORS' REMUNERATION (Cont'd)

	2004 HK\$'000	2003 HK\$'000
Executive director A	852	852
Executive director B	189	189
Executive director C	189	189
Independent non-executive director A	20	20
Independent non-executive director B	20	20
Independent non-executive director C	20	20
Non-executive director A	20	20
	<u>1,310</u>	<u>1,310</u>

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.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included one (2003: one) director, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining four (2003: four) non-director, highest paid employees are as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Salaries and allowances	1,424	1,364
Retirement scheme contributions	46	47
	<u>1,470</u>	<u>1,411</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 each of the two years ended 30 June 2003 and 2004.

10. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits for the year.

The amount of taxation charged to the income statement represents:

	2004 <i>HK\$'000</i>	As restated 2003 <i>HK\$'000</i>
Hong Kong profits tax	—	19
Deferred taxation (<i>Note 23</i>)	651	217
	651	236

The charge for the year can be reconciled to the profit per the income statement as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Profit before taxation	2,229	2,079
Calculated at Hong Kong profits tax rate of 17.5% (2003: 17.5%)	390	364
Tax effect of non-taxable income	—	(1)
Tax effect of non-deductible expenses	—	20
Overprovision in prior year	—	3
Tax effect on unused tax losses not recognised	259	106
Effect of change in tax rate on opening deferred tax assets	—	(253)
Others	2	(3)
	651	236

Notes to Financial Statements

30 June 2004

11. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 30 June 2004 dealt with in the financial statements of the Company is HK\$890,000 (2003: HK\$720,000).

12. DIVIDENDS

No dividend was paid or proposed for the year ended 30 June 2004, nor has any dividend been proposed since the balance sheet date (2003: Nil).

13. EARNINGS PER SHARE

The basic earnings per share for the year is calculated based on the profit from ordinary activities attributable to shareholders of the Group for the year of HK\$1,578,000 (2003 as restated: HK\$1,843,000), and the weighted average of 400,000,000 (2003: 394,739,326) ordinary shares in issue during the year.

Diluted earnings per share amounts for each of the two years ended 30 June 2003 and 2004 has not been disclosed as no diluting event existed during these years.

14. PROPERTY, PLANT AND EQUIPMENT**Group**

	Office equipment	Furniture and fixtures	Plant and machinery	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Costs				
At 1 July 2003	142	188	339	669
Additions	2	10	—	12
At 30 June 2004	<u>144</u>	<u>198</u>	<u>339</u>	<u>681</u>
Accumulated depreciation				
At 1 July 2003	121	178	319	618
Charge for the year	6	11	16	33
At 30 June 2004	<u>127</u>	<u>189</u>	<u>335</u>	<u>651</u>
Net book value				
At 30 June 2004	<u>17</u>	<u>9</u>	<u>4</u>	<u>30</u>
At 30 June 2003	<u>21</u>	<u>10</u>	<u>20</u>	<u>51</u>

At 30 June 2004 and 30 June 2003, the Company had no property, plant and equipment.

Notes to Financial Statements

30 June 2004

15. FILM RIGHTS AND FILMS IN PROGRESS

	Group	
	2004 HK\$'000	2003 HK\$'000
Film rights	5,211	8,115
Films in progress	19,172	12,798
Sub-licensing rights	4,749	4,556
	<u>29,132</u>	<u>25,469</u>
Less: Amounts classified as current assets	(25,186)	(21,588)
Non-current portion	<u>3,946</u>	<u>3,881</u>

16. INTERESTS IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	100	100
Amounts due from subsidiaries	17,370	13,160
Amounts due to subsidiaries	(27)	—
	<u>17,443</u>	<u>13,260</u>

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

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

Notes to Financial Statements

30 June 2004

17. ACCOUNTS RECEIVABLE

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Within 30 days	2,545	1,504
Between 31 to 60 days	2,400	300
Between 61 to 90 days	1,950	100
Between 90 to 120 days	1,300	440
Over 120 days	843	166
	<u>9,038</u>	<u>2,510</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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Cash and bank balances	541	1,089	3	7
Time deposits	10,092	10,060	10,092	10,060
	<u>10,633</u>	<u>11,149</u>	<u>10,095</u>	<u>10,067</u>
Less: Pledged time deposits, pledged for bank overdraft facilities	<u>(10,000)</u>	<u>(10,000)</u>	<u>(10,000)</u>	<u>(10,000)</u>
Cash and cash equivalents	<u>633</u>	<u>1,149</u>	<u>95</u>	<u>67</u>

19. ACCOUNTS PAYABLE

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

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Within 30 days	—	85
Between 31 to 60 days	—	127
Between 61 to 90 days	—	186
Over 90 days	89	261
	89	659

20. DUE TO A DIRECTOR

The amount due to a Director is unsecured and interest-free.

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
- (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.

At 30 June 2004, the amount due to the Director of HK\$9,046,000 has been pledged to an independent third party as security for the short-term loans of HK\$5 million granted to the Company (Note 22).

Notes to Financial Statements

30 June 2004

21. 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.

22. SHORT TERM LOANS

	Group	
	2004 HK\$'000	2003 HK\$'000
Loans wholly repayable within 1 year		
— Secured	5,000	—
— Unsecured	1,000	—
	<u>6,000</u>	<u>—</u>

At 30 June 2004, all the undertakings, property and assets of the Company were pledged and the amount due to a director by the Company of HK\$9,046,000 has been assigned to an independent third party as security for a short-term borrowing amounting to HK\$5 million for working capital of the Group. These facilities are also supported by corporate guarantees executed by the ultimate holding company and personal guarantees executed by certain directors of the Company.

23. DEFERRED TAXATION

The following are the major deferred tax assets recognised by the Group during the current and prior years:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
At beginning of the year	2,481	2,698
Transfer to income statement (<i>Note 10</i>)	(651)	(217)
At end of the year	<u>1,830</u>	<u>2,481</u>
Provided for in respect of:		
Accelerated depreciation allowances	15	14
Unused tax losses	1,815	2,467
	<u>1,830</u>	<u>2,481</u>

At 30 June 2004, there was no material unprovided deferred tax liabilities.

24. ISSUED CAPITAL

	Company	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Authorised:		
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 ordinary shares of HK\$0.01 each	<u>4,000</u>	<u>4,000</u>

25. SHARE OPTION SCHEME

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, 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.

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.

25. SHARE OPTION SCHEME *(Cont'd)*

The exercise price of the share options is determinable by the Directors, but may not be less than the higher of (i) the Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average 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.

26. CONTINGENT LIABILITIES

Best Faith (Hong Kong) Limited and B & S Film Distribution Company Limited, subsidiaries of the Company, have been named as the defendants in a High Court action in respect of an alleged breach of contractual undertakings. The Directors, after having consulted its legal counsel, are of the opinion that the two subsidiaries have good grounds to defend on the case and they should not be liable to the claims and, accordingly, no provision for any potential liability has been made in the financial statements for the year ended 30 June 2004.

Notes to Financial Statements

30 June 2004

27. 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 2004, the Group had total future minimum lease payments under the non-cancellable operating lease falling due as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Within one year	98	168
In the second to fifth years, inclusive	—	98
	<u>98</u>	<u>266</u>

At 30 June 2004 and 30 June 2003, the Company did not have any significant operating lease arrangements.

28. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties, apart from those disclosed elsewhere in the financial statements, during the year:

	Notes	2004 HK\$'000	2003 HK\$'000
(a) Lightal Limited:			
Management fee paid	(i)	—	220
Operating lease rentals in respect of land and buildings	(ii)	<u>168</u>	<u>168</u>

28. RELATED PARTY TRANSACTIONS (Cont'd)

(a) (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, 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.
- (b) A Director has assigned the amount due to him of HK\$9,046,000 by the Company to an independent third party as security for a loan granted to the Company.
- (c) Certain Directors have executed personal guarantees for HK\$6 million loan granted to the Group.

Notes to Financial Statements

30 June 2004

29. POST BALANCE SHEET EVENTS

Subsequent to the year end, the following interests of which were deemed to be directly or indirectly interested in 5% or more of the issued share capital of the Company had disposed of their respective interests to independent third parties:

Name	Number of shares disposed of	Percentage of holding
Coxwell Corp.	170,400,000	42.6%
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%
Baserich International Limited	36,800,000	9.2%
Mr. Hung Kam Po	36,800,000	9.2%
Mr. Lee Tat Chiu	36,800,000	9.2%
Amerose International Limited	33,200,000	8.3%
Mr. Cheng Wing Ming	<u>33,200,000</u>	<u>8.3%</u>

30. COMPARATIVE FIGURES

With a review of financial statements' presentation, certain items in the financial statements were reclassified which would result in a more appropriate presentation of events or transactions. Accordingly, comparative figures 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 on 27 September 2004.

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 to 3 below:

RESULTS

	Year ended 30 June				
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i> (as restated)	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
TURNOVER	20,593	28,023	23,872	28,267	23,472
Cost of sales	(7,724)	(17,118)	(17,337)	(21,969)	(19,463)
Gross profit	12,869	10,905	6,535	6,298	4,009
Other revenue	51	118	284	19	2
Selling and distribution costs	(1,371)	(3,005)	(1,395)	(1,362)	(1,830)
Administrative expenses	(8,570)	(5,501)	(3,931)	(4,011)	(4,148)
Other operating expenses	—	—	—	—	(995)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	2,979	2,517	1,493	944	(2,962)
Finance costs	(750)	(438)	(38)	(52)	(55)
PROFIT/(LOSS) BEFORE TAXATION	2,229	2,079	1,455	892	(3,017)
Taxation	(651)	(236)	(18)	(45)	(70)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	1,578	1,843	1,437	847	(3,087)

Financial Summary

ASSETS AND LIABILITIES

	30 June				
	2004 HK\$'000	2003 HK\$'000 (as restated)	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Non-current assets	11,406	12,013	2,093	206	274
Current assets	54,815	46,935	12,359	16,484	24,563
Current liabilities	<u>(25,614)</u>	<u>(19,919)</u>	<u>(12,937)</u>	<u>(16,612)</u>	<u>(25,606)</u>
Net current assets/(liabilities)	<u>29,201</u>	<u>27,016</u>	<u>(578)</u>	<u>(128)</u>	<u>(1,043)</u>
Non-current liability	<u>9,046</u>	<u>9,046</u>	—	—	—
	<u><u>31,561</u></u>	<u><u>29,983</u></u>	<u><u>1,515</u></u>	<u><u>78</u></u>	<u><u>(769)</u></u>

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 1(c) to the financial statements. The consolidated results of the Group for the year ended 30 June 2004 are also set out on page 25 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. The consolidated balance sheet as at 30 June 2002 has been extracted from the audited financial statements.
3. The consolidated results of the Group for the year ended 30 June 2003 and consolidated balance sheet as at 30 June 2003 have been extracted from the audited financial statement after restatement to reflect the effect of the prior period adjustments on adoption of SSAP 12 (Revised). No restatement was made from 2000 to 2002 in respect of the adoption of SSAP12 (Revised) as the Directors considered it is not cost effective to do so.