



**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  
**2005**

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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. Lee Man Kwong  
 Mr. Chan Kwok Sun, Dennis  
 Ms. Xiong Jingling  
 Mr. Law Kwok Keung

### Independent Non-executive Directors

Mr. Lam Kin Kau, Mark  
 Mr. Fung Wing Keung  
 Mr. Law Kwok Leung

## COMPANY SECRETARY

Mr. Lee Man Kwong

## QUALIFIED ACCOUNTANT

Mr. Au Yeung Chung Bong

## COMPLIANCE OFFICER

Mr. Lee Man Kwong

## AUTHORISED REPRESENTATIVES

Mr. Lee Man Kwong  
 Mr. Chan Kwok Sun, Dennis

## AUDIT COMMITTEE

Mr. Lam Kin Kau, Mark  
 Mr. Fung Wing Keung  
 Mr. Law Kwok Leung

## AUDITORS

Hopkins CPA Limited  
 Certified Public Accountants

## PRINCIPAL BANKER

HSBC

## 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

Room 1108  
 Asia Standard Tower  
 59-65 Queen's Road Central  
 Hong Kong

## SOLICITORS

**Hong Kong**  
 Chiu & Partners

## Cayman Islands

Conyers Dill & Pearman, Cayman



## CORPORATE INFORMATION

### **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 30th June 2005.

## FINANCIAL RESULT

For the year ended 30th June 2005, the Group's net loss attributable to Shareholders was approximately HK\$55.3 million as compared to profit of approximately HK\$1.58 million in previous year. Turnover decreased from approximately HK\$20.6 million in the previous year to approximately HK\$1.8 million this year, representing a decrease of approximately 91%.

## DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 30th June 2005.

## OVERVIEW

For the year ended 30th June 2005, new management has joined the Group and has been focusing on the organizational and financial restructuring of the Group. In March 2005, the Group has concluded a distribution agreement with a leading movie distributor in Hong Kong. By kicking off its new strategic alliance with one of the prime distributors in the industry, the Group has developed a new network of distribution and has secured a steady income stream for the coming years.

The Group will continue to take advantage of the strong growth in China economy and the Closer Economic Partnership Arrangement ("CEPA") in order to search for high quality co-production partners in China.

## PROSPECTS

Despite the recent changes in management of the Company, the Group will continue to invest in the film production industry in Hong Kong. The Directors expect certain movies with an aggregate investment of approximately HK\$10 million are to be invested in the coming year, although this estimate may vary depending on the market conditions and the availability of good stories and scripts and the casting that will be involved.

## APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my thankfulness to the Group's shareholders and customers for their support, to the management and staff for their hard work and contributions during the year.

**Lee Man Kwong**

*Director*

Hong Kong, 23rd September 2005

# MANAGEMENT DISCUSSION AND ANALYSIS

## OPERATION REVIEW

During the year, the Group was engaged in the organizational and financial restructuring activities. The Group has shifted its focus from production of digital movies to film movies. As film movies generally required more investment, the Group has adopted a “contractor package deal” approach rather than the traditional production approach.

In March 2005, Best Faith (Hong Kong) Limited (Trading as B&S Films Creation Works House), a wholly-owned subsidiary of the Company, has concluded a distribution contract with a leading movie distributor in Hong Kong. By 30th June 2005, 13 movies had been successfully distributed.

In response to the change in the Group’s direction, certain DV films in progress are no longer suitable to be launched under current market demand. Therefore, the Directors decided to recognize an impairment of films in progress amounted to approximately HK\$17.2 million in the financial statements of the Group for the year ended 30th June 2005.

For the year under review, the Group’s turnover decreased to approximately HK\$1.8 million as compared to approximately HK\$20.6 million in previous year, representing a decrease of approximately 91%. The decrease was mainly due to decrease in the number of movies launched during the year. Gross loss during the year was mainly contributed by the amortization of film rights. Loss attributable to shareholders during the year was mainly due to the impairment losses of film rights and films in progress of

approximately HK\$20.5 million, provision for doubtful debts of approximately HK\$8.6 million and provision for irrecoverable deposits and prepayments of approximately HK\$15.4 million.

## FINANCIAL POSITION

For the year under review, the Group mainly financed its operations with bank overdraft facilities provided by its bankers in Hong Kong and other short term loans provided by its substantial shareholder and finance companies.

As at 30th June 2005, the Group had total current assets of approximately HK\$3.2 million (2004: HK\$54.8 million), including cash and bank balances of approximately HK\$0.1 million (2004: HK\$0.6 million), film rights and films in progress of approximately HK\$2.8 million (2004: HK\$25.2 million) and prepayment, deposits and other receivables of approximately HK\$0.3 million (2004: HK\$10.0 million). The Group has aggregate outstanding borrowings of approximately HK\$24.8 million (2004: HK\$32.4 million). It comprised of a bank overdraft of approximately HK\$6.1 million (2004: 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 (2004: 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), a short term loan of HK\$3.0 million (2004: HK\$6.0 million) at an interest rate of 2%, shareholder’s loan of approximately HK\$4.6 million (2004: Nil) at an interest rate of 5% per annum and an interest-free loan of approximately HK\$11.0 million (2004: Nil). The loan is not repayable within twelve months.

# MANAGEMENT DISCUSSION AND ANALYSIS

## GEARING RATIO

The gearing ratio, representing borrowings divided by shareholders equity, was approximately -1.04 as at 30th June 2005 (2004: 1.03). The negative gearing ratio was attributable to negative net asset value of the Group of approximately HK\$23.7 million.

## 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 30th June 2005 and 30th June 2004, the Group did not have outstanding hedging instruments.

## CHARGES ON GROUP ASSETS

At 30th June 2005, 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\$3.0 million for working capital of the Group.

## EMPLOYEES

As at 30th June 2005, the Group had 8 full-time staffs (2004: 14). The total of employee remuneration, including that of the Directors, for the year under review and last corresponding year amounted respectively to approximately HK\$2.7 million and approximately HK\$3.9 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 22nd 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.

## CONTINGENT LIABILITIES

As at 30th June 2005, there was a pending litigations against the Group in respect of salaries arrears to the amount of approximately HK\$800,000. The Company is of the view that the claims are without merit and has procured appropriate legal actions for counter-claim against the relevant parties for damages for breach of contracts to the amount of approximately HK\$1,600,000. Therefore no provision has been made on the claim in the accounts of the Group in the annual results for the year ended 30th June 2005.





## MANAGEMENT DISCUSSION AND ANALYSIS

### **SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS**

Save as disclosed above, the Group did not have any plan for material investments and acquisition of material capital assets as at 30th June 2005.

### **MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES**

There had been no material acquisitions and disposals of subsidiaries during the year (2004: Nil).

### **OUTLOOK**

The Group will continue to search for good stories; scripts and casting in order achieve the objective to become an active movie producer and distributor in the Greater China region and other countries.



# BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

**Mr. Lee Man Kwong**, aged 50, was appointed as an Executive Director in November 2004. He is also the company secretary of the Company. Mr. Lee has been practising as a solicitor in Hong Kong for over 20 years and is a partner at Messrs. Chan, Lau & Wai, Solicitors. He is also a solicitor qualified in England and Wales and Singapore. Mr. Lee has 11 years of exposure to the entertainment industry in Hong Kong and has built up extensive connections within the industry. Mr. Lee is currently an independent non-executive director of New Spring Holdings Limited and was an independent non-executive director of Asia Standard Hotel Group Limited for the period from 2000 to 2003, both of which are listed companies in Hong Kong. He has substantial experience in business management through his personal direct investments in various industries such as Internet, trading and tourism in Hong Kong and the PRC.

**Ms. Xiong Jingling**, aged 41, was appointed as an Executive Director in November 2004. Mr. Xiong holds a Bachelor of Law Degree from the Renmin University of China. Ms. Xiong has 14 years of commercial experience as she took up senior consulting and managerial positions in several consulting and investment companies in the PRC. She is at present the deputy general manager of a property consultancy in Shenzhen, China.

**Mr. Chan Kwok Sun, Dennis**, aged 55, was appointed as an Executive Director in November 2004. Mr. Chan has accumulated more than 22 years of execution experience in sales, marketing and production in the entertainment business, including with Disney and Era International Film and Distribution (Taiwan) and as an independent movie producer. He is currently the honorary committee of Hong Kong Performing Artists Guild. Mr. Chan has been a non-executive director of China Chief Cable TV Group Limited, a GEM listed company engaging in the businesses of pre-mastering, media production, playout and audio-visual technology, since 2001.

**Mr. Law Kwok Keung**, aged 57, was appointed as an Executive Director in November 2004. Mr. Law has been involved in film production since the 1980s, and has substantial experience in this field. He had participated in the production of more than 50 films, including classic pieces Rouge (胭脂扣), Police Story II (警察故事II), Inspectors Wear Skirts I&II (霸王花I、II) and God of Gamblers I & II (賭俠I、II). He was a production planning director of Win's Movie Production Limited for the period from 1984 to 1996, during which he worked on the production of various types of movies such as romance, action, costume and comedy etc. He had also worked for China Star Entertainment Limited, Panorama Distributions Company Limited and Emperor Multimedia Group as film producer.

## BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

### INDEPENDENT NON-EXECUTIVE DIRECTOR

**Mr. Lam Kin Kau, Mark**, aged 50, was appointed as an independent non-executive Director in April 2005. Mr. Lam is a practicing certified public accountant in Hong Kong and a fellow member of the Association of Chartered Certified Accountants of United Kingdom. Mr. Lam is also members of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Secretaries and Administrators respectively. He has over 19 years of experience in professional auditing, accounting and financial management. Mr. Lam is currently the sole proprietor of Messrs. Mark K. Lam & Co., certified public accountants, which is specialized in providing professional auditing and corporate advisory services to various private and public entities. Mr. Lam has also held independent non-executive directorship in Haier-CCT Holdings Limited and New Spring Holdings Limited since 2000 and 2004 respectively.

**Mr. Law Kwok Leung**, aged 45, was appointed as an independent non-executive Director in April 2005. Mr. Law has 21 years of experience in the advanced technology and is the Chief Executive Officer and an executive director of China Chief Cable TV Group Limited. Mr. Law holds an honoured Bachelor of Science degree in Mathematics with Operational Research from the University of London and a Master's degree in Business Administration from the University of Greenwich. Mr. Law is also a member of the Chartered Institute of Marketing, a fellow member of the Institute of Analysts and Programmers and full member of the Institute of Management.

**Mr. Fung Wing Keung**, aged 50, was appointed as an independent non-executive Director in April 2005. Mr. Fung has over 15 years of experience in entertainment and video industry. He is currently the General Manager of a video distribution company.

### SENIOR MANAGEMENT

**Mr. Au Yeung Chung Bong**, aged 29, is the qualified accountant of the Company. He is mainly responsible for the accounting and financial management of the Company. Mr. Au Yeung is a Certified Practising Accountant of CPA Australia and has over 5 years of experience in accounting and auditing.

# 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 30th June 2005.

## 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 18 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

## RESULTS AND APPROPRIATIONS

The Group's loss for the year ended 30th June 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 18 to 48.

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

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 49 to 50. This summary does not form part of the audited financial statements.

## RESERVES

Movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on pages 21 to 22.

## DISTRIBUTABLE RESERVES

As at 30th June 2005, the Company had no distributable reserves available for distribution to shareholders of the Company (2004: distributable reserve of HK\$18,417,000).

## PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group during the year are set out in note 16 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 28 and 29 to the financial statements.

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

## PRE-EMPTIVE RIGHTS

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

## REPORT OF THE DIRECTORS

### PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

### MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

#### Purchases

- |                                   |       |
|-----------------------------------|-------|
| – the largest supplier            | 23.1% |
| – five largest suppliers combined | 49.0% |

#### Sales

- |                                   |       |
|-----------------------------------|-------|
| – the largest customer            | 30.1% |
| – five largest customers combined | 88.7% |

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

### MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

### ADVANCES TO ENTITIES

Accounts receivable amounted to approximately HK\$4,610,000, HK\$3,490,000 and HK\$3,946,000 was owed from Lupat Trading Limited ("Lupat"), S&R Corporation ("S&R") and Parkline Trading Company ("Parkline") which represent 27.4%, 20.8% and 23.5% respectively of the Company's present market capitalization of approximately HK\$16,400,000, calculated based on the average closing price of the Company's shares of HK\$0.041 per share as stated in the Stock Exchange's daily quotation sheets for the trading days from 5th September 2005 to 9th September 2005.

Lupat, S&R and Parkline are customers of the Group and third parties independent of any of the directors, chief executives and substantial shareholders of the Company, its subsidiaries or their respective associates. Such amounts represent the outstanding balances of certain sales transactions on film rights sub-licensing entered into by the Group in the usual course of the Group's principal business activities which are films production and film rights licensing. The amounts are unsecured and interest-free.

# REPORT OF THE DIRECTORS

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES

As at 30th June 2005, 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 5.68 of the GEM Listing Rules relating to securities transactions by directors, to be notified to the Company and the Stock Exchange, were as follows:

### Long positions in the shares of the Company

Name of director	Corporate interest	Percentage of shareholding
Mr. Lee Man Kwong	170,400,000*	42.6%
Ms. Xiong Jingling	170,400,000*	42.6%

\* Mr. Lee Man Kwong and Ms. Xiong Jingling have beneficial interests of 70% and 30% respectively in Sparkle China Development Limited, which owns 170,400,000 ordinary shares of the Company.

Save as disclosed above, the Directors do not have any interests or short positions in the shares of the Company.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Details of the Company's share option scheme (the "Scheme") are set out in note 29 to the financial statements. At no time during the year was the 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.

## DIRECTORS

The Directors during the financial year and up to the date of this report were:

### Executive Directors:

Mr. Lee Man Kwong	(appointed on 19th November 2004)
Mr. Chan Kwok Sun, Dennis	(appointed on 19th November 2004)
Ms. Xiong Jingling	(appointed on 19th November 2004)
Mr. Law Kwok Keung	(appointed on 19th November 2004)
Mr. Siu Luen Fat (Chairman)	(resigned on 21st February 2005)
Mr. Siu Kin Fat	(resigned on 22nd February 2005)
Mr. Siu Kuen Fat	(resigned on 21st February 2005)

### Non-executive Director:

Mr. Hung Kam Po	(retired on 30th December 2004)
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### Independent non-executive Directors:

Mr. Lam Kin Kau, Mark	(appointed on 31st March 2005)
Mr. Fung Wing Keung	(appointed on 31st March 2005)
Mr. Law Kwok Leung	(appointed on 31st March 2005)
Ms. Chiu Kam Hing, Kathy	(resigned on 31st March 2005)
Dr. Cheung Wai Bun, Charles	(resigned on 31st March 2005)
Mr. Li Chi Fai	(resigned on 25th February 2005)

## REPORT OF THE DIRECTORS

The directors are subject to retirement and re-election by rotation in the forthcoming annual general meeting in accordance with the Company's Articles of Association.

### DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 9 to 10 of the annual report.

### INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSABLE UNDER THE SFO

So far is known to any Director of the Company, as at 30th June 2005, shareholders (other than Directors of the Company) who had interests or short positions in the securities of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or who were deemed to be directly and indirectly interested in 5% or more of the issued share capital of the Company, or which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Name	Number of shares held	Percentage of shareholding
Sparkle China Development Limited	170,400,000	42.6%
Mr. Fu Hau Ching	20,012,000	5.0%

Save as disclosed above and in "Directors' Interests and Short Positions in Shares", the Company had no notice of any interests and short positions to be recorded pursuant to Section 336 of the SFO.

### SPONSOR'S INTEREST

Kingston Corporate Finance Limited (the "Sponsor") has confirmed that, as at 30th June 2005, 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 of rights to subscribe for such securities).

Pursuant the sponsor agreement between the Company and the Sponsor, the Sponsor is entitled to receive a fee for acting as the Company's sponsor for the period from 7th December 2004 to 30th June 2005.

### BOARD PRACTICES, PROCEDURES AND CODE ON CORPORATE GOVERNANCE PRACTICES

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 in force prior to accounting period commencing 1st January 2005 during the year.

## REPORT OF THE DIRECTORS

The Board Practices and Procedures set out in Rules 5.34 to 5.45 were replaced by the Code on Corporate Governance Practices (“Code on CG Practices”) as set out in Appendix 15 of the GEM Listing Rules which has become effective for accounting periods commencing on or after 1st January 2005. Appropriate actions are being taken by the Company for complying with the Code on CG Practices.

### AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to the guidelines recommended by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee provides an important link between the Board and the Company’s auditors in matters coming within the scope of the Group’s audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation. The Committee comprises all the three independent non-executive Directors of the Company. Two meetings were held during the current financial year and the annual results have been reviewed by the audit committee before tabling for the Board’s approval.

### DIRECTORS’ INTEREST IN COMPETING BUSINESS

None of the Directors or management shareholders of the Company (as defined in the GEM Listing Rules) has an interest in a business which compete or may compete with the business of the Group.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and the Company considers the independent non-executive Directors remained independent.

### AUDITORS

During the year, Ernst & Young, who acted as auditors of the Company for the year ended 30th June 2003 resigned. CCIF CPA Limited (formerly known as Charles Chan, Ip & Fung CPA Ltd.) were appointed as auditors of the Company in August 2004. In September 2005, CCIF CPA Limited resigned and Hopkins CPA Limited were appointed as auditors of the Company to fill up the casual vacancy.

A resolution for the re-appointment of Hopkins 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

**Lee Man Kwong**  
*Director*

Hong Kong, 23rd September 2005





# REPORT OF THE AUDITORS



## HOPKINS CPA LIMITED

- 25/F Man Yee Building
- 68 Des Voeux Road Central
- Hong Kong

To the members

### **B&S Entertainment Holdings Limited**

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

We have audited the financial statements on pages 18 to 48 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.



# REPORT OF THE AUDITORS

## **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 30th June 2005 and of its loss 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.

### **Hopkins CPA Limited**

*Certified Public Accountants*

### **Albert Lam**

Practising Certificate Number P02080

Hong Kong, 27th September 2005

# CONSOLIDATED INCOME STATEMENT

For the year ended 30th June 2005

	Notes	2005 HK\$'000	2004 HK\$'000
TURNOVER	5	1,763	20,593
Cost of sales		(5,704)	(7,724)
Gross (loss)/ profit		(3,941)	12,869
Other revenues	6	262	51
Selling and distribution costs		(253)	(1,371)
Administrative and other expenses		(49,700)	(8,570)
(LOSS)/PROFIT FROM OPERATING ACTIVITIES	8	(53,632)	2,979
Finance costs	9	(1,659)	(750)
(LOSS)/PROFIT BEFORE TAXATION		(55,291)	2,229
Taxation credit/(charged)	12	5	(651)
(LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS		(55,286)	1,578
(LOSS)/EARNINGS PER SHARE	15		
Basic		(HK13.82 cents)	HK0.39 cent
Diluted		N/A	N/A

# CONSOLIDATED BALANCE SHEET

As at 30th June 2005

	Notes	2005 HK\$'000	2004 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	16	–	30
Film rights and films in progress	17	611	3,946
Prepayments	20	–	5,600
Deferred tax assets	27	1,830	1,830
		<b>2,441</b>	11,406
<b>Current assets</b>			
Film rights and films in progress	17	2,815	25,186
Accounts receivable	19	–	9,038
Prepayments, deposits and other receivables	20	274	9,958
Pledged deposits	21	–	10,000
Cash and cash equivalents	21	85	633
		<b>3,174</b>	54,815
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Deposits received		1,772	1,212
Accounts payable	22	170	89
Accrued liabilities and other payables		2,640	936
Tax payable		–	16
Bank overdrafts, secured	23	6,118	17,361
Shareholder's loan	24	4,640	–
Short term loans	25	3,000	6,000
		<b>18,340</b>	25,614
<b>Net current (liabilities)/assets</b>		<b>(15,166)</b>	29,201
<b>Total assets less current liabilities</b>		<b>(12,725)</b>	40,607
<b>Non-current liabilities</b>			
Due to a director		–	9,046
Other loan	26	11,000	–
<b>NET (LIABILITIES)/ASSETS</b>		<b>(23,725)</b>	31,561

# CONSOLIDATED BALANCE SHEET

As at 30th June 2005

	<i>Notes</i>	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
<b>CAPITAL AND RESERVES</b>			
Issued capital	28	<b>4,000</b>	4,000
Reserves		<b>(27,725)</b>	27,561
		<b>(23,725)</b>	31,561

**Lee Man Kwong**  
*Director*

**Chan Kwok Sun, Dennis**  
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30th June 2005

## Group

	Issued capital HK\$'000	Share premium account HK\$'000	Capital reserve HK\$'000	Accumul- ated losses HK\$'000	Total HK\$'000
At 30th June 2003 and 1st July 2003	4,000	20,027	17,590	(11,634)	29,983
Net profit for the year	–	–	–	1,578	1,578
At 30th June 2004 and 1st July 2004	4,000	20,027	17,590	(10,056)	31,561
Net loss for the year	–	–	–	(55,286)	(55,286)
At 30th June 2005	4,000	20,027	17,590	(65,342)	(23,725)

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30th June 2005

## Company

	<b>Issued capital</b> HK\$'000	<b>Share premium account</b> HK\$'000	<b>Accumulated losses</b> HK\$'000	<b>Total</b> HK\$'000
At 30th June 2003 and 1st July 2003	4,000	20,027	(720)	23,307
Net loss for the year	–	–	(890)	(890)
At 30th June 2004 and 1st July 2004	4,000	20,027	(1,610)	22,417
Net loss for the year	–	–	(27,301)	(27,301)
At 30th June 2005	4,000	20,027	(28,911)	(4,884)

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30th June 2005

	2005 HK\$'000	2004 HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>(Loss)/Profit before taxation</b>	<b>(55,291)</b>	2,229
<b>Adjustments for:</b>		
Finance costs	1,659	750
Interest income	(10)	(32)
Depreciation	17	33
Impairment losses on film rights and films in progress	20,474	–
Loss on disposal of property, plant and equipment	13	–
Provision for irrecoverable deposits and prepayments	15,400	–
Provision for doubtful debts	8,556	3,490
<b>OPERATING (LOSS)/PROFIT BEFORE WORKING CAPITAL CHANGES</b>	<b>(9,182)</b>	6,470
Decrease/(increase) in film rights and films in progress	5,232	(3,663)
Decrease/(increase) in accounts receivable	482	(10,018)
(Increase)/decrease in prepayments, deposits and other receivables	(116)	1,730
Increase in deposits received	560	289
Increase/(decrease) in accounts payable	81	(570)
Increase/(decrease) in accrued liabilities and other payables	1,704	(12)
Decrease in an amount due to a director	(9,046)	–
Increase in other loan	11,000	–
<b>CASH GENERATED FROM/(USED IN) OPERATIONS</b>	<b>715</b>	(5,774)
Hong Kong profits tax paid	(11)	(11)
<b>NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>	<b>704</b>	(5,785)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	10	32
Purchases of property, plant and equipment	–	(12)
<b>NET CASH INFLOW FROM INVESTING ACTIVITIES</b>	<b>10</b>	20
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
New loans raised	5,439	6,000
Loans repayment	(3,900)	–
Interest paid	(1,558)	(750)
<b>NET CASH (OUTFLOW)/INFLOW FROM FINANCING ACTIVITIES</b>	<b>(19)</b>	5,250
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>695</b>	(515)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>(6,728)</b>	(6,213)
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<b>(6,033)</b>	(6,728)



# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30th June 2005

	<i>Notes</i>	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	21	<b>85</b>	541
Non-pledged time deposits with original maturity of less than three months when acquired	21	–	92
Time deposits with original maturity of less than three months when acquired, pledged as security for bank overdraft facilities	21	–	10,000
Bank overdrafts, secured	23	<b>(6,118)</b>	(17,361)
		<b>(6,033)</b>	(6,728)

# BALANCE SHEET

As at 30th June 2005

	<i>Notes</i>	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Interests in subsidiaries	18	<b>295</b>	17,443
<b>Current assets</b>			
Prepayments, deposits and other receivables		<b>56</b>	60
Pledged deposits	21	–	10,000
Cash and cash equivalents	21	<b>2</b>	95
		<b>58</b>	10,155
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accrued liabilities and other payables		<b>1,464</b>	181
Shareholder's loan	24	<b>773</b>	–
Short term loan, secured	25	<b>3,000</b>	5,000
		<b>5,237</b>	5,181
<b>Net current (liabilities)/assets</b>		<b>(5,179)</b>	4,974
<b>NET (LIABILITIES)/ASSETS</b>		<b>(4,884)</b>	22,417
<b>CAPITAL AND RESERVES</b>			
Issued capital	28	<b>4,000</b>	4,000
Reserves		<b>(8,884)</b>	18,417
		<b>(4,884)</b>	22,417

Lee Man Kwong  
Director

Chan Kwok Sun, Dennis  
Director



# NOTES TO THE FINANCIAL STATEMENTS

30th June 2005

## 1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 11th 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 Room 1108, 11th Floor, Asia Standard Tower, 59-65 Queen's Road Central, Hong Kong.

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 18 to the financial statements.

## 2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS

The Hong Kong Institute of Certified Public Accountants has issued a number of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, hereinafter collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 30th June 2005.

The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

## 3. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the Directors have given careful consideration to the future liquidity of the Group in the light of its consolidated loss attributable to shareholders of HK\$55,286,000 for the year ended 30th June 2005 and net current liabilities of HK\$15,166,000 and deficiency of shareholders' fund of HK\$23,725,000 as at 30th June 2005.

In preparing the financial statements for the year ended 30th June 2005, the Directors considered that it is still appropriate to adopt a going concern basis for the reason that the Company has various fund raising plans subsequent to the balance sheet date. The Company has already proceeded with one of such fund raising plans to obtain additional working capital. In the opinion of the Directors, after the completion of such fund raising activity, the Group will have sufficient working capital to fulfill its present requirements and finance its operations.

# NOTES TO THE FINANCIAL STATEMENTS

30th June 2005

## 4. 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 and interpretations issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements are prepared under the historical cost convention.

### (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

#### (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.

# NOTES TO THE FINANCIAL STATEMENTS

30th June 2005

## 4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (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 30th June 2004 and 2005 include the results and cash flows of the Company and its subsidiaries with effect from 1st 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.

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.

### (d) 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 property, plant and equipment 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 THE FINANCIAL STATEMENTS

30th June 2005

## 4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (e) 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%

### (f) 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.

### (g) 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 amortization 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 cost 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.

#### (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.



# NOTES TO THE FINANCIAL STATEMENTS

30th June 2005

## 4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (h) Impairment of Assets

At each balance sheet date, assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of one of these assets may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss, representing the difference between the carrying amount and the recoverable amount, is recognised in the income statement. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the disposal of an asset in an arm's length transaction less the costs of the disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Reversal of an impairment loss of an asset recognised in prior years is recorded when there is an indication that the impairment loss recognised for the asset no longer exists or has decreased. The reversal is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years and credited to the income statement.

### (i) Accounts Receivable

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

### (j) 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.



# NOTES TO THE FINANCIAL STATEMENTS

30th June 2005

## 4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (k) Deferred Taxation

Deferred taxation is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

### (l) 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.



# NOTES TO THE FINANCIAL STATEMENTS

30th June 2005

## 4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (m) 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.

### (n) 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.

#### (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.

# NOTES TO THE FINANCIAL STATEMENTS

30th June 2005

## 4. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (o) 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.

## 5. 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:

	2005 HK\$'000	2004 HK\$'000
Licensing of film rights	1,763	20,200
Sub-licensing of film rights	–	380
Sale of videos and video compact discs	–	13
	<b>1,763</b>	<b>20,593</b>

## 6. OTHER REVENUES

	2005 HK\$'000	2004 HK\$'000
Interest income	10	32
Others	252	19
	<b>262</b>	<b>51</b>

# NOTES TO THE FINANCIAL STATEMENTS

30th June 2005

## 7. 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.

### Geographical segments

The following tables present revenue and profit/(loss) 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	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	1,456	455	-	11,842	21	5,514	286	2,782	1,763	20,593
Segment results	(51,398)	(315)	-	4,173	(4)	(1,857)	(2,492)	927	(53,894)	2,928
Other revenues									252	19
Interest income									10	32
Finance costs									(1,659)	(750)
(Loss)/Profit before taxation									(55,291)	2,229
Taxation									5	(651)
(Loss)/Profit attributable to shareholders									(55,286)	1,578

# NOTES TO THE FINANCIAL STATEMENTS

30th June 2005

## 8. (LOSS)/PROFIT FROM OPERATING ACTIVITIES

The Group's (loss)/profit from operating activities is arrived at after charging:

	For the year ended 30th June	
	2005 HK\$'000	2004 HK\$'000
Cost of film and sub-licensing rights*	5,686	7,709
Cost of inventories sold	18	15
Depreciation	17	33
Provision for doubtful debts	8,556	3,490
Impairment losses on film rights and films in progress	20,474	–
Provision for irrecoverable deposits and prepayments	15,400	–
Loss on disposal of property, plant and equipment	13	–
Auditors' remuneration	131	200
Staff costs (excluding directors' remuneration in (Note 10)):		
Wages and salaries	2,331	2,487
Retirement scheme contributions	53	95
	<b>2,384</b>	2,582
Minimum lease payments under operating leases in respect of land and buildings to:		
– a related company (Note 32)	100	168

\* The cost of film and sub-licensing rights for the year included amortisation of film rights of HK\$5,295,000 (2004: HK\$7,002,000) and is included in cost of sales in the consolidated income statement.

# NOTES TO THE FINANCIAL STATEMENTS

30th June 2005

## 9. FINANCE COSTS

	Group	
	2005 HK\$'000	2004 HK\$'000
Interest on bank overdrafts wholly repayable within one year	517	691
Interest on short term loan	1,142	59
	<b>1,659</b>	750

## 10. DIRECTORS' REMUNERATION

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

	Group	
	2005 HK\$'000	2004 HK\$'000
Fees	30	80
Other emoluments:		
Salaries, allowances and benefits in kind	400	1,200
Retirement scheme contributions	10	30
	<b>410</b>	1,230
	<b>440</b>	1,310

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All the fees were payable to the independent non-executive Directors and there were no remuneration payable to the non-executive Director during the year. (2004: All the fees were payable to independent non-executive Directors and the non-executive Director.)

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 30th June 2005 and 2004.

# NOTES TO THE FINANCIAL STATEMENTS

30th June 2005

## 10. DIRECTORS' REMUNERATION (Continued)

	2005				2004
	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Retirement scheme contributions HK\$'000	Total HK\$'000	Total HK\$'000
Siu Luen Fat	-	280	4	284	852
Siu Kin Fat	-	60	3	63	189
Siu Kuen Fat	-	60	3	63	189
Chiu Kam Hing, Kathy	10	-	-	10	20
Cheung Wai Bun, Charles	10	-	-	10	20
Li Chi Fai	10	-	-	10	-
Kan Ching Duen	-	-	-	-	20
Hung Kam Po	-	-	-	-	20
	<b>30</b>	<b>400</b>	<b>10</b>	<b>440</b>	<b>1,310</b>

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.

## 11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included one (2004: one) director, details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining four (2004: four) non-director, highest paid employees are as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Salaries and allowances	<b>1,320</b>	1,424
Retirement scheme contributions	<b>24</b>	46
	<b>1,344</b>	<b>1,470</b>

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 30th June 2005 and 2004.

# NOTES TO THE FINANCIAL STATEMENTS

30th June 2005

## 12. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits for the year.

The amount of taxation charged to the income statement represents:

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Hong Kong profits tax	–	–
Over-provision in prior years	<b>(5)</b>	–
Deferred taxation ( <i>Note 27</i> )	–	651
	<b>(5)</b>	651

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

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
(Loss)/profit before taxation	<b>(55,291)</b>	2,229
Calculated at Hong Kong profits tax rate of 17.5% (2004: 17.5%)	<b>(9,675)</b>	390
Tax effect of non-deductible expenses	<b>6,800</b>	–
Over-provision in prior years	<b>(5)</b>	–
Tax effect on unused tax losses not recognised	<b>2,870</b>	259
Tax effect on deductible temporary differences not recognised	<b>5</b>	–
Others	–	2
	<b>(5)</b>	651

## 13. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 30th June 2005 dealt with in the financial statements of the Company is HK\$27,301,000 (2004: HK\$890,000).

# NOTES TO THE FINANCIAL STATEMENTS

30th June 2005

## 14. DIVIDENDS

No dividend was paid or proposed for the year ended 30th June 2005, nor has any dividend been proposed since the balance sheet date (2004: Nil).

## 15. LOSS PER SHARE

The basic loss per share for the year (2004: basic earnings per share) is calculated based on the loss from ordinary activities attributable to shareholders of the Group for the year of HK\$55,286,000 (2004: profit of HK\$1,578,000), and the weighted average of 400,000,000 (2004: 400,000,000) ordinary shares in issue during the year.

Diluted earnings per share amounts for each of the two years ended 30th June 2005 and 2004 have not been disclosed as no diluting event existed during these years.

## 16. PROPERTY, PLANT AND EQUIPMENT

### Group

	Office equipment HK\$'000	Furniture and fixtures HK\$'000	Plant and machinery HK\$'000	Total HK\$'000
<b>Cost</b>				
At 1st July 2004	144	198	339	681
Disposals	(64)	(48)	(12)	(124)
At 30th June 2005	80	150	327	557
<b>Accumulated depreciation</b>				
At 1st July 2004	127	189	335	651
Charge for the year	4	9	4	17
Written back on disposals	(51)	(48)	(12)	(111)
At 30th June 2005	80	150	327	557
<b>Net book value</b>				
At 30th June 2005	-	-	-	-
At 30th June 2004	17	9	4	30

At 30th June 2005 and 30th June 2004, the Company had no property, plant and equipment.



# NOTES TO THE FINANCIAL STATEMENTS

30th June 2005

## 17. FILM RIGHTS AND FILMS IN PROGRESS

	Group	
	2005 HK\$'000	2004 HK\$'000
Film rights	2,686	5,211
Films in progress	17,241	19,172
Sub-licensing rights	3,973	4,749
	<b>23,900</b>	29,132
Less: Impairment losses	<b>(20,474)</b>	–
	<b>3,426</b>	29,132
Less: Amounts classified as current assets	<b>(2,815)</b>	(25,186)
Non-current portion	<b>611</b>	3,946

## 18. INTERESTS IN SUBSIDIARIES

	Company	
	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	100	100
Amounts due from subsidiaries	763	17,370
Amounts due to subsidiaries	<b>(568)</b>	(27)
	<b>295</b>	17,443

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

# NOTES TO THE FINANCIAL STATEMENTS

30th June 2005

## 18. INTERESTS IN SUBSIDIARIES (Continued)

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 THE FINANCIAL STATEMENTS

30th June 2005

## 19. ACCOUNTS RECEIVABLE

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

	Group	
	2005 HK\$'000	2004 HK\$'000
Within 30 days	–	2,545
Between 31 to 60 days	–	2,400
Between 61 to 90 days	–	1,950
Between 91 to 120 days	–	1,300
Over 120 days	<b>12,046</b>	4,333
	<b>12,046</b>	12,528
Less: Provision for doubtful debts	<b>(12,046)</b>	(3,490)
	–	9,038

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.

## 20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2005 HK\$'000	2004 HK\$'000
Prepayments, deposits and other receivables	<b>15,674</b>	15,558
Less: Provision for irrecoverable deposits and prepayments	<b>(15,400)</b>	–
	<b>274</b>	15,558
Less: Amounts classified as current assets	<b>(274)</b>	(9,958)
Non-current portion	–	5,600

# NOTES TO THE FINANCIAL STATEMENTS

30th June 2005

## 21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Cash and bank balances	85	541	2	3
Time deposits	–	10,092	–	10,092
	85	10,633	2	10,095
Less: Pledged time deposits, pledged for bank overdraft facilities	–	(10,000)	–	(10,000)
Cash and cash equivalents	85	633	2	95

## 22. ACCOUNTS PAYABLE

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

	Group	
	2005 HK\$'000	2004 HK\$'000
Within 30 days	18	–
Between 31 to 60 days	12	–
Between 61 to 90 days	48	–
Over 90 days	92	89
	170	89

# NOTES TO THE FINANCIAL STATEMENTS

30th June 2005

## 23. BANK OVERDRAFTS SECURED

The bank overdrafts were secured by a corporate guarantee from the Company and the personal guarantees from certain Directors who resigned during the year.

## 24. SHAREHOLDER'S LOAN

The loan is unsecured, interest bearing at 5% per annum and repayable on demand.

## 25. SHORT TERM LOANS

	Group	
	2005 HK\$'000	2004 HK\$'000
Loans wholly repayable within 1 year		
– Secured	3,000	5,000
– Unsecured	–	1,000
	<b>3,000</b>	6,000

At 30th June 2005, the loan was secured by all property and assets of the Company.

## 26. OTHER LOAN

The loan is unsecured, interest-free and it is the intention of the lender not to demand for repayment in the foreseeable future.

# NOTES TO THE FINANCIAL STATEMENTS

30th June 2005

## 27. DEFERRED TAXATION

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

	2005 HK\$'000	2004 HK\$'000
At beginning of the year	1,830	2,481
Transfer to income statements ( <i>Note 12</i> )	–	(651)
At end of the year	<b>1,830</b>	1,830
Provided for in respect of:		
Accelerated depreciation allowances	15	15
Unused tax losses	1,815	1,815
	<b>1,830</b>	1,830

At 30th June 2005, there was no material unprovided deferred tax liabilities.

## 28. ISSUED CAPITAL

	Company	
	2005 HK\$'000	2004 HK\$'000
Authorised:		
3,000,000,000 ordinary shares of HK\$0.01 each	<b>30,000</b>	30,000
Issued and fully paid:		
400,000,000 ordinary shares of HK\$0.01 each	<b>4,000</b>	4,000

# NOTES TO THE FINANCIAL STATEMENTS

30th June 2005

## 29. 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 22nd 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.

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 share for five trading days immediately preceding the date of the offer; and (iii) the nominal value of the shares.

# NOTES TO THE FINANCIAL STATEMENTS

30th June 2005

## 29. SHARE OPTION SCHEME (Continued)

Share options do not confer rights on the holders to dividends or to vote at shareholder's meeting.

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

## 30. CONTINGENT LIABILITIES

As at 30th June 2005, there was a pending litigation against the Group in respect of salaries arrears to the amount of approximately HK\$800,000. The Company is of the view that the claims are without merit and has procured appropriate legal actions for counter-claim against the relevant parties for damages for breach of contracts to amount of approximately HK\$1,600,000. Therefore, no provision has been made for the claim in the financial statements of the Group for the year ended 30th June 2005.

## 31. OPERATING LEASE ARRANGEMENTS

At 30th June 2005, the Group had total future minimum lease payments under the non-cancellable operating lease falling due as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Within one year	–	98
In the second to fifth years, inclusive	–	–
	–	98

At 30th June 2005 and 30th June 2004, the Company did not have any significant operating lease arrangements.



# NOTES TO THE FINANCIAL STATEMENTS

30th June 2005

## 32. 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:

		2005 HK\$'000	2004 HK\$'000
(a)	Lightal Limited: Operating lease rentals in respect of land and buildings	<b>100</b>	168

*Note:* The office rental expense was determined with reference to the prevailing market value.

- (b) A Director, who resigned during the year, has assigned the amount due to him of HK\$11,000,000 by the Company to an independent third party.
- (c) The Group's banking facilities were secured by the unlimited personal guarantees from certain Directors who resigned during the year.

## 33. 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.

## 34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 23rd September 2005.

# FINANCIAL SUMMARY

30th June 2005

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 4 below:

## RESULTS

	Year ended 30th June				
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000 (as restated)	2002 HK\$'000	2001 HK\$'000
TURNOVER	<b>1,763</b>	20,593	28,023	23,872	28,267
Cost of sales	<b>(5,704)</b>	(7,724)	(17,118)	(17,337)	(21,969)
Gross (loss)/profit	<b>(3,941)</b>	12,869	10,905	6,535	6,298
Other revenues	<b>262</b>	51	118	284	19
Selling and distribution costs	<b>(253)</b>	(1,371)	(3,005)	(1,395)	(1,362)
Administrative expenses	<b>(49,700)</b>	(8,570)	(5,501)	(3,931)	(4,011)
(LOSS)/PROFIT FROM OPERATING ACTIVITIES	<b>(53,632)</b>	2,979	2,517	1,493	944
Finance costs	<b>(1,659)</b>	(750)	(438)	(38)	(52)
(LOSS)/PROFIT BEFORE TAXATION	<b>(55,291)</b>	2,229	2,079	1,455	892
Taxation	<b>5</b>	(651)	(236)	(18)	(45)
NET (LOSS)/PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<b>(55,286)</b>	1,578	1,843	1,437	847

# FINANCIAL SUMMARY

As at 30th June 2005

## ASSETS AND LIABILITIES

	2005 HK\$'000	30th June			
		2004 HK\$'000	2003 HK\$'000 (as restated)	2002 HK\$'000	2001 HK\$'000
Non-current assets	<b>2,441</b>	11,406	12,013	2,093	206
Current assets	<b>3,174</b>	54,815	46,935	12,359	16,484
Current liabilities	<b>(18,340)</b>	(25,614)	(19,919)	(12,937)	(16,612)
Net current (liabilities)/ assets	<b>(15,166)</b>	29,201	27,016	(578)	(128)
Non-current liability	<b>11,000</b>	9,046	9,046	–	–
	<b>(23,725)</b>	31,561	29,983	1,515	78

### 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 30th June 2005 are also set out on page 25 of the audited financial statements.
2. The combined balance sheets as at 30th June 2001 has 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 30th June 2002 has been extracted from the audited financial statements.
3. The consolidated results of the Group for the year ended 30th June 2003 and consolidated balance sheet as at 30th 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 2001 to 2002 in respect of the adoption of SSAP12 (Revised) as the Directors considered it is not cost effective to do so.
4. The consolidated balance sheet as at 30th June 2004 has been extracted from the audited financial statements.