



**B&S**  
**ENTERTAINMENT HOLDINGS LIMITED**

中大娛樂控股有限公司

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

## Placing

Sponsor

**KIM ENG**  
CAPITAL

**KIM ENG CAPITAL (HONG KONG) LIMITED**

Lead Manager



**SHENYIN WANGUO CAPITAL (H.K.) LIMITED**

# IMPORTANT

If you are in any doubt about this prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.



## **B&S** **ENTERTAINMENT HOLDINGS LIMITED**

中大娛樂控股有限公司

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

### **Listing on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited by way of Placing of New Shares and Sale Shares**

**Number of Placing Shares** : 100,000,000 Shares comprising  
60,000,000 New Shares and  
40,000,000 Sale Shares  
(subject to the Over-allotment Option)

**Placing Price** : HK\$0.50 per Placing Share

**Nominal value** : HK\$0.01 each

**Stock code** : 8167

#### **Sponsor**

**KIM ENG**  
CAPITAL

**KIM ENG CAPITAL (HONG KONG) LIMITED**

#### **Lead Manager**



**Shenyin Wanguo Capital (H.K.) Limited**

#### **Underwriters**

**Shenyin Wanguo Capital  
(H.K.) Limited**

**Taiwan Concord Capital Securities  
(Hong Kong) Limited**

**CSC Securities (HK) Limited**

**Grand Cathay Securities  
(Hong Kong) Limited**

**Phoenix Capital Securities Limited**

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies in Hong Kong" in Appendix V to this prospectus, has been registered with the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any of the other documents referred to above.

Prospective investors of the Placing Shares should note that the Underwriters are entitled to terminate their obligations under the Underwriting Agreement by notice in writing to the Company and the Vendor given by the Lead Manager (for itself and on behalf of the Underwriters) upon the occurrence of any of the events set forth under the paragraph headed "Grounds for termination" in the section headed "Underwriting" in this prospectus at any time prior to 11:00 a.m. (Hong Kong time) on the second business day immediately preceding the day on which dealings in the Shares on GEM first commence. Such events include, without limitation to, any act of Government, strikes, lock outs, fire, explosion, flooding, civil commotion, acts of war or act of God or accident which in the reasonable opinion of the Lead Manager (for itself and on behalf of the Underwriters) (i) materially or adversely affects or will have or is likely to materially or adversely affect the business, financial or other conditions or prospects of the Company taken as whole; or (ii) has or will have or is likely to have a material and adverse effect on the success of or makes it inadvisable or inexpedient to proceed with the Placing.

29th July, 2002

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET OF THE STOCK 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 of the Stock Exchange 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 Stock 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 at [www.hkgem.com](http://www.hkgem.com) in order to obtain up-to-date information on GEM-listed issuers.**

## EXPECTED TIMETABLE

2002  
(Note 1)

Allotment of New Shares and transfer of the Sale Shares on or before .....	Friday, 2nd August
Announcement of the level of indication of interests in the Placing and basis of allotment to be published on the GEM website on .....	Friday, 2nd August
Deposit of share certificates into CCASS on (Note 2) .....	Friday, 2nd August
Dealings in the Shares on GEM expected to commence on .....	Tuesday, 6th August

*Notes:*

- All dates and times refer to Hong Kong local time, except as otherwise stated.*
- The share certificates for the Placing Shares to be distributed via CCASS are expected to be deposited into CCASS on 2nd August, 2002 for credit to the respective CCASS participant's stock accounts designated by the Underwriters. The share certificates will only become valid certificates of title after 5:00 p.m. on the second business day immediately preceding the Listing Date provided that (i) the Placing has become unconditional; and (ii) the right of termination contained in the Underwriting Agreement as described in the section headed "Underwriting" in this prospectus has not been exercised prior thereto.*
- If there is any revision to the above timetable, a separate announcement will be made by the Company.*

Details of the structure of the Placing, including the conditions hereof, are set out under the heading "Structure of the Placing" in this prospectus.

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*You should rely only on the information contained in this prospectus to make your investment decision.*

*The Company and the Vendor have not authorised anyone to provide you with information that is different from what is contained in this prospectus.*

*Any information or representation not made in this prospectus must not be relied on by you as having been authorised by the Company, the Vendor, the Sponsor, the Underwriters, any of their respective directors or any other person or party involved in the Placing.*

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## SUMMARY

*This summary aims to give you an overview of the information contained in this prospectus. This is only a summary and does not contain all the information that may be important to you. You should read the entire prospectus before deciding to invest in the Placing Shares.*

*There are risks associated with any investment. You are advised to consider carefully all information set out in this prospectus and, in particular, should evaluate the risks set out in the section headed "Risk factors" in this prospectus before deciding to invest in the Placing Shares.*

Terms used herein will bear the same meanings as those defined under the sections headed "Definitions" and "Glossary" in this prospectus.

### DESCRIPTION OF BUSINESS

The Group is principally engaged in the business of (a) production of movies; (b) distribution of copyright/film rights in respect of movies produced by the Group to overseas countries and in Hong Kong; and (c) sub-licensing of film rights in respect of movies procured from overseas movie producers in Hong Kong.

#### Production and distribution of films

The Group is principally engaged in the production of Chinese language movies in Hong Kong and distribution of copyright/film rights in respect of Chinese language movies produced by the Group to overseas countries and in Hong Kong; and sub-licensing of film rights in respect of movies procured from overseas movie producers in Hong Kong. The Group's movies were produced by using (a) 35mm filming technique, a traditional way of producing movies in the film production industry; and (b) digital video filming technique, a way of producing movies which emerged in the film production industry in the past few years. The Directors believe that the Group is one of the prime movers for the production of movies using DV equipment in Hong Kong.

The Directors believe that the technology adopted by the Group in the production of movies using DV equipment reduces the cost of production by more than 50% per movie as a result of less production equipment being used and reduction of film processing cost and hence increases the efficiency and effectiveness of film production by the Group. The Directors considered that there is no direct comparable between the production cost for 35mm format movie and DV format movie due to difference in casting, quality of production crew and scale of production equipment applied. However, on the basis that the above factors are similar, to the best knowledge and estimation of the Directors, as an example, the Directors estimate that for a 35mm format movie with a total production cost of approximately HK\$2.5 million, there will be a cost saving by more than HK\$1.25 million by using DV filming technique. However, the production of movies using 35mm filming equipment is a traditional way of producing movies adopted by the film production industry for many years and as a result, screening equipment installed in the majority of cinemas and theatres in Hong Kong only accommodate for the screening of movies produced by 35mm films.

## SUMMARY

The Directors consider that, at present, the primary market for movies produced in 35mm film format and DV format are different. Movies produced in DV format are mainly released to selected cinemas which have installed with DV screening equipment for the screening of DV format movies and subsequently distributed to the market in the forms of VCD, DVD or video tape as well as screening in pay TV channels. While movies produced by using 35mm filming equipment are initially released in cinemas and subsequently released in the forms of VCD, DVD or video tape or screened in pay TV channels. The Group's strategy is to continue to engage in the production of movies using both DV equipment and 35mm filming equipment, depending on the market in which the Group targets for distribution at the time of production of the relevant movies.

The Group normally licenses the copyright/film rights of the movies produced by the Group to its distributors to produce VCD, DVD and video tape of the Group's movies.

### *Movies produced by 35mm film*

The Group commenced its business in mid-1997 and initially engaged in the production of movies in 35mm film format and distributed such movies to overseas countries and in Hong Kong. From early 1998 to January 1999, the Group has produced and distributed a total of 7 movies in 35mm film format. Since then, the Group has concentrated mainly on the production of movies using DV equipment and has engaged in the production of movies using 35mm filming equipment where necessary. In May 2002, the Group has produced and released a 35mm movie named "*The Hidden Enforcers*" (殺手狂龍).

### *Movies produced in DV format*

The Group began the production and distribution of DV format movies from January 1999 and July 1999 respectively and since then has produced and distributed over 50 DV format movies up to the Latest Practicable Date. The DV format movies produced by the Group were distributed to overseas countries including various Asian countries, North America, Australia and New Zealand and/or screened in a cinema in Hong Kong. In relation to the screening of the Group's DV format movies in Hong Kong, the Group has an arrangement with a cinema in Hong Kong, namely New Imperial Cinema in 1999, pursuant to which, the cinema operator has refurbished the cinema and installed relevant equipment with the capability to screen digital movies in the cinema. Up to the Latest Practicable Date, the arrangement with the cinema is still in operation. Apart from this, DV screening equipment has been installed in the Hong Kong Space Museum and Kwai Tsing Theatre in Kwai Chung, Hong Kong. The movies produced by the Group are usually released in the aforesaid cinema before being distributed to others. Copyright/film rights in respect of the Group's movies sold by the Group to its customers usually include the right to release the Group's movies in different video formats including VCD, DVD and video tape.

## SUMMARY

### **Sub-licensing of film right**

During the year ended 30th June, 2001 and the six months ended 31st December, 2001, the Group has been engaged in the business of the sub-licensing of copyright/film rights (including 500 adult movies and 200 other types of movies such as comedies and horror movies) which amounted to approximately HK\$13.9 million and HK\$3.9 million respectively. The copyright/film rights of the movies were licensed from an independent third party in Hong Kong and were sub-licensed to another independent third party in Hong Kong.

### **Sales of videos and VCDs of the movies produced by the Group**

For the two years ended 30th June, 2001, the Group has been engaged in the sales of movies produced by the Group in the form of videos and VCDs mainly to both retailers and distributors in Hong Kong. The Group has subcontracted to certain manufacturers which were independent third parties for the production of VCDs comprised of the Group's movies. For each of the two years ended 30th June, 2001, sale of movies produced by the Group in the form of videos and VCDs amounted to approximately 12.1% and 4.4% of the total turnover of the Group respectively.

### **HISTORY AND DEVELOPMENT**

The Group was founded by Mr. Siu, Mr. Siu Kin Fat and Mr. Siu Kuen Fat in May 1997. At the early development stage of the Group from July 1997 to January 1999, the Group mainly engaged in the production of motion pictures using 35mm filming technology, a traditional method for the production of movies. The first movie produced by the Group was released to the market in June 1998.

For the same period, the Group produced a total of seven movies using 35mm filming technology and distributed its copyright/film rights mainly to overseas via independent distributors and a cinema operator in Hong Kong.

In January 1999, the Group began to carry out a feasibility study on the production of films in DV format, which has, at the relevant time, been used in the US for over 4 years. After a period of about six months of research, development, testing and initial production, the results of the feasibility study were promising and the Group released its first DV format movie, namely "*Our Last Day*" (第 100 日), in July 1999.

Since the release of the first DV format movie by the Group and for the period from July 1999 to January 2000, the Group has produced and released a total of 29 DV format movies, including "*Our Last Day*" (第 100 日), comprised of various types of contents.

From October 2000 onward, the Group began the production of movies in series. As at the Latest Practicable Date, the Group has completed the production of two sets of prison and seven sets of ghost story movie series respectively.

## SUMMARY

In addition to the engagement of production personnel involved in film shooting process on a project by project basis, the Group, following the industry trend, also began to outsource the production of movies to independent movies production companies on a project by project basis. On 25th October, 2000, the Group entered into three film production agreements with East Entertainment Limited, an independent third party and a movie production company, to engage Mr. Nam Yin (南燕(林嶺南)), an experienced movie producer, as the film producer for 19 completed movies including “*Troublesome Nights 8*” (陰陽路八之棺材仔). Through these agreements, the Group continues to work with Mr. Nam Yin through East Entertainment Limited to produce more movies for the Group.

The Group mainly co-operated with the relevant independent film producers and production crews for pre-production preparation, shooting and certain post-production process on a project by project basis while it focused on the selection of the type of movies to be produced, overall control of the movies undertaken to be produced, including the formulation of strategies, selection of actors/actresses, quality assurance, and ensuring timely completion of the production of those movies.

### **BUSINESS STRATEGIES**

The Group aims to become an active movie producer and distributor of Chinese language movies in the Greater China region, North America, Europe, Asia and other countries. The Group plans to achieve its business objectives via the following strategies:

- **Investment in production equipment**

In order to establish itself as one of the leading DV format movie producers and distributors in Hong Kong for overseas and domestic customers and with the anticipated increase in the demand for DV format movies in the future, the Group intends to further invest in various equipment for the production of DV format movies. On the other hand, in order to upgrade its existing equipment and to keep abreast of the development of the application of both DV format movies and 35mm movies technology, the Group also intends to invest in production equipment with the latest technology from time to time. The Directors believe that the use of the latest movie technology will enable the Group to produce motion pictures in a cost effective way and is essential for the Group to continue to produce high quality movies in the future.

- **Increase the budget for employment of cast for movies to be produced by the Group**

The Directors consider that during the Track Record Period and at present, the number of cast employed by the Group for the production of movies has been limited. In order to expand and strengthen the marketability of the Group’s movies and to continue to provide high quality movies with rich content of different varieties, the Group plans to increase the budget for employment of cast in the future on a project by project basis.

## SUMMARY

- **Expansion of the geographical reach and market penetration of the Group**

With the existing market in Hong Kong and the Chinese community in the rest of Asia, North America, Australia and New Zealand, the Group aims to expand its geographical reach by exploring the distribution of the Group's movies to the Chinese community in other areas such as Europe. In view of the above and in order to strengthen the Group's position, the Group will actively pay regular visits to the existing customers of the Group in order to promote the Group's movies and attend tradeshows and film festivals for the promotion of the Group's movies to new potential customers.

The Group also plans to extend its sales and distribution networks to the non-Chinese communities around the world as the Directors believe that after the release of a Oscar-winning Chinese film in 2001, more interest has been shown by the US and European markets in Chinese films and the demand for such films is anticipated to increase and as a result, the Group plans to produce Chinese films which may interest the US and European markets.

On the other hand, the Group will enhance the distribution of the Group's movies to pay TV channel and intends to open up its distribution networks to Internet based televisions in Hong Kong and the Greater China region. The Directors anticipate that future demand for Chinese movies in those media will be high.

- **Training for film industry related human resources**

The Directors believe that the supply of experienced and high quality human resources is an important factor for the successful development of the Group's business. The Directors consider that the supply of human resources in the film industries, including film directors, film producers, art directors, actors/actresses and other related personnel, is unstable and unstructured and a steady supply of high quality human resources is important for the production of high quality movies and the development of the overall film industry in the future. In view of the above, the Group plans to set up training departments and organises courses and seminars in Hong Kong in different sectors of the film industry including but not limited to (a) film directors; (b) film screenplay writers; (c) film producers; (d) actors/actresses; and (e) post-production crew.

The training courses will not be profit making in nature and the Group will not rely on it as a future major source of income. The Directors consider that the training courses will assist the Group to identify and retain suitable and competent personnel in the film industry for the development of the Group's business in the future. The Directors also believe that the training courses will not only benefit the Group but also the entire film industry in Hong Kong in the long run. Thus, it is the present intention of the Group that the training courses will be open to the public.

## SUMMARY

- **Screening of the Group's movies in cinemas in Hong Kong and development of new businesses**

To strengthen the Group's revenue and to expand the Group's revenue channels, the Directors consider that apart from concentrating on the development of overseas markets, the Group also intends to increase the penetration of the screening of the Group's DV format movies in cinemas in Hong Kong. At present, there are only one cinema and two theatres in Hong Kong which have installed equipment for the screening of DV format movies. Accordingly, the Group plans to form alliances with cinemas in Hong Kong for the screening of DV format movies by jointly investing in the relevant DV movies screening equipment. The revenues which are expected to be generated from such alliances will be shared between the Group and the relevant cinemas in proportion to their respective investments which is tentatively set at 40% and 60% respectively. The Directors believe that this kind of alliance arrangements will enable the Group to expand its market share in Hong Kong and strengthen its revenue base in the future. As at the Latest Practicable Date, the Group has yet to engage in negotiation for such arrangement with cinemas in Hong Kong or elsewhere.

To further strengthen the Group's revenue in the future, the Group also plans to engage in the provision of advertising services to customers seeking alternative marketing channels by advertising their products in the Group's films. The Directors anticipate that the market penetration of the Group's movies will increase in the future and as a result, customers' interest for placing advertisement in the Group's films will also increase.

### COMPETITIVE ADVANTAGES

The Directors consider that the Group has the following strengths and competitive advantages:

- the Group is one of the prime movers in the DV format movie production industry in Hong Kong and the Group has an advantage in the production and distribution of DV format movies;
- efficiency and cost effectiveness in the Group's production processes as a result of the use of DV filming technology which provides flexibility for the Group's development in the future;
- its experienced and dedicated management team which possesses an in-depth knowledge in the production and distribution of movies produced by the Group;
- its close relationship with customers and suppliers; and
- its film library consisting of 60 movies enabling the Group to further develop and expand its business.

# SUMMARY

## INITIAL MANAGEMENT SHAREHOLDERS, SIGNIFICANT SHAREHOLDER AND RESTRICTIONS ON DISPOSAL OF SHARES

Immediately following completion of the Placing (assuming the Over-allotment Option is not exercised and without taking into account any Shares that may be issued pursuant to the exercise of any option which may be granted under the Share Option Scheme), the shareholding structure of the Company and the relevant lock-up period of the respective Shareholders under the GEM Listing Rules is summarised as follows:

Shareholders	Date on which direct/indirect shareholding interest in the Group was first acquired	Approximate cost of total investment <i>HK\$</i>	Approximate cost per Share <i>HK\$</i>	Number of Shares held immediately after the completion of the Placing <i>Shares</i>	Approximate percentage of shareholding held immediately after the completion of the Placing <i>%</i>	Lock-up period
<b>INITIAL MANAGEMENT SHAREHOLDERS</b>						
Coxwell <i>(Notes 1 and 8)</i>	16th May, 1997	17,580,000	0.09	200,400,000	50.1%	12 months <i>(Note 6)</i>
Baserich <i>(Notes 2 and 8)</i>	22nd July, 2002	20,400,000	0.50	40,800,000	10.2%	12 months <i>(Note 6)</i>
Dragon Master <i>(Notes 3 and 8)</i>	22nd July, 2002	6,000,000	0.50	12,000,000	3.0%	12 months <i>(Note 6)</i>
<b>SIGNIFICANT SHAREHOLDER</b>						
Amerose <i>(Notes 4 and 8)</i>	22nd July, 2002	16,600,000	0.50	33,200,000	8.3%	6 months <i>(Note 7)</i>
<b>PUBLIC SHAREHOLDERS</b>						
Eagle Creek <i>(Notes 5 and 8)</i>	22nd July, 2002	6,800,000	0.50	13,600,000	3.4%	n.a.
Other public Shareholders	n.a.	n.a.	0.50	100,000,000	25.0%	n.a.
<b>Total</b>				<u>400,000,000</u>	<u>100.0%</u>	

**Notes:**

- These Shares are held by Coxwell, a company incorporated in BVI and whose shares are beneficially owned as to approximately 33.33%, 33.33% and 33.33% by Mr. Siu, Mr. Siu Kuen Fat and Mr. Siu Kin Fat respectively, all being executive Directors. Coxwell, Mr. Siu, Mr. Siu Kuen Fat and Mr. Siu Kin Fat are regarded as the initial management shareholders (as defined in the GEM Listing Rules). Each of Mr. Siu, Mr. Siu Kuen Fat and Mr. Siu Kin Fat has undertaken to the Company, the Stock Exchange, the Sponsor and the Underwriters that each of Mr. Siu, Mr. Siu Kuen Fat and Mr. Siu Kin Fat will not dispose of (or enter into any agreement to dispose of) his direct or indirect interest in the issued share capital of Coxwell, during the 12-Month Lock-up Period. Coxwell has undertaken to the Company, the Stock Exchange, the Sponsor and the Underwriters that it will not dispose of (or enter into any agreement to dispose of) its direct or indirect interest in the issued share capital of the Company during the 12-Month Lock-up Period.

## SUMMARY

2. Baserich is a company incorporated in BVI and the beneficial shareholders of Baserich are summarised as follows:

<b>Names of shareholders of Baserich</b>	<b>Approximate percentage of shareholding %</b>
Mr. Lee Tat Chiu	43.9
Mr. Hung, non-executive Director	34.2
Mr. Lee Tat Keung	14.6
Mr. Poon King Hei	7.3
	<hr style="width: 100%; border: 0.5px solid black;"/>
	100.0
	<hr style="width: 100%; border: 0.5px solid black;"/>

Save for Mr. Hung, an Initial Management Shareholder, the shareholders of Baserich are independent third parties not connected with any of the Directors, chief executive of the Company, the Initial Management Shareholders or the Substantial Shareholders or any of their respective associates and none of them has been involved in the management or operation of the Group and none of their acquisitions of the indirect interest in the Company was funded directly or indirectly by any connected person (as defined in the GEM Listing Rules) of the Group. All of the shareholders of Baserich are independent of each other. Mr. Lee Tat Chiu, by reason of his deemed interest in Baserich, is a significant shareholder (as defined in the GEM Listing Rules).

Baserich is an initial management shareholder (as defined in the GEM Listing Rules). Each of the shareholders of Baserich has undertaken to the Stock Exchange, the Company, the Sponsor and the Underwriters that he will not dispose of (or enter into any agreement to dispose of) his direct or indirect interest in the issued share capital of Baserich during the 12-Month Lock-up Period. The undertaking of each of Mr. Lee Tat Chiu, Mr. Lee Tat Keung and Mr. Poon King Hei is made voluntarily. Baserich has undertaken to the Company, the Stock Exchange, the Sponsor and the Underwriters and each of them that it will not dispose of (or enter into any agreement to dispose of) its direct or indirect interest in the issued share capital of the Company during the 12-Month Lock-up Period.

3. Dragon Master is a company incorporated in BVI and is beneficially equally owned by Ms. Man Ka Bo and Ms. Lo Man Ling, both of whom are members of the senior management of the Group. Dragon Master, Ms. Man Ka Bo and Ms. Lo Man Ling are regarded as the initial management shareholders (as defined in the GEM Listing Rules). Each of Ms. Man Ka Bo and Ms. Lo Man Ling has undertaken to the Company, the Stock Exchange, the Sponsor and the Underwriters that she will not dispose of (or enter into any agreement to dispose of) her direct or indirect interest in the issued share capital of Dragon Master during the 12-Month Lock-up Period. Dragon Master has undertaken to the Company, the Stock Exchange, the Sponsor and the Underwriters that it will not dispose of (or enter into any agreement to dispose of) its direct or indirect interest in the issued share capital of the Company during the 12-Month Lock-up Period.

## SUMMARY

4. Amerose is a company incorporated in BVI and the beneficial shareholders of Amerose are summarised as follows:

<b>Names of shareholders of Amerose</b>	<b>Approximate percentage of shareholding %</b>
Mr. Cheng Wing Ming	43.2
Ms. Siu Mei Shuen	18.5
Mr. Yim Kwok Leung, Kenneth	15.4
Mr. Chan Yip Fai	7.4
Mr. Or Tak Fai	6.2
Ms. Siu Yin Ping	6.2
Mr. Tsang Kok Ping	3.1
	100.0

The shareholders of Amerose are (i) independent third parties not connected with any of the Directors, chief executive of the Company, the Initial Management Shareholders or the Substantial Shareholders or any of their respective associates (save for Ms. Siu Mei Suen who is the sister of Mr. Siu and Ms. Siu Yin Ping who is the wife of Mr. Cheng Wing Ming) and none of them has been involved in the management or operation of the Group and their acquisition of the interest in the Company was not funded directly or indirectly by any connected person (as defined in the GEM Listing Rules) of the Group; and (ii) independent of each other (save for Ms. Siu Yin Ping who is the wife of Mr. Cheng Wing Ming). Each of Amerose and Mr. Cheng Wing Ming is a significant shareholder (as defined in the GEM Listing Rules). Each of the shareholders of Amerose has undertaken to the Stock Exchange, the Company, the Sponsor and the Underwriters that he/she will not dispose of (or enter into any agreement to dispose of) his/her direct or indirect interest in the issued share capital of Amerose during the 6-Month Lock-up Period. The undertaking of each of Ms. Siu Mei Shuen, Mr. Yim Kwok Leung, Kenneth, Mr. Chan Yip Fat, Mr. Or Tak Fai, Ms. Siu Yin Ping and Mr. Tsang Kok Ping is made voluntarily. Amerose has undertaken to the Company, the Stock Exchange, the Sponsor and the Underwriters that it will not dispose of (or enter into any agreement to dispose of) its direct or indirect interest in the issued share capital of the Company during the 6-Month Lock-up Period.

Ms. Siu Mei Shuen is the sister of Mr. Siu and is independent of Ms. Siu Yin Ping.

5. These Shares are held by Eagle Creek, a company incorporated in BVI and whose shares are beneficially owned as to approximately 48.2%, 22.2% and 29.6% by Ms. Ho Ying Tai, Mr. Ho Kai Yung and Ms. Yung Mei Ling respectively, who are independent of and not connected with any of the Directors, chief executive of the Company, the Initial Management Shareholders, the Substantial Shareholders or any of their respective associates and none of them has been involved in the management or operation of the Group and their acquisition of the indirect interest in the Company was not funded directly or indirectly by any connected person (as defined in the GEM Listing Rules) of the Group and they are independent of each other. None of them individually holds more than 5% of the issued share capital of the Company immediately after the Placing and the Capitalisation Issue.

6. Each of the Initial Management Shareholders has undertaken to the Company, the Stock Exchange, the Sponsor (in its capacity as sponsor of the Placing) and the Underwriters and each of them that at any time during the 12-Month Lock-up Period:

(i) he/she/it will place in escrow with an escrow agent acceptable to the Stock Exchange and approved by the Sponsor his/her/its relevant securities (as such term is defined in Rule 13.15(4) of the GEM Listing Rules, hereinafter the "Relevant Securities") on terms acceptable to the Stock Exchange and the Sponsor;

## SUMMARY

- (ii) he/she/it will not and shall procure that the registered holder(s) shall not, save as provided in Rule 13.18 of the GEM Listing Rules and with the prior written consent of the Sponsor, sell, transfer or otherwise dispose of or create any right (or enter into any agreement to do any of the above) in respect of any of his/her/its direct or indirect interest in the Relevant Securities; and
- (iii) (A) in the event that he/she/it pledges or charges any direct or indirect interest in the Relevant Securities under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules, he/she/it must inform the Company and the Sponsor (for itself and on behalf of the Underwriters) immediately in writing of such pledge or charge together with the details as specified in Rules 17.43(1) to (4) of the GEM Listing Rules; and (B) having pledged or charged any of his/her/its interest in the Relevant Securities, he/she/it must inform the Company and the Sponsor (for itself and on behalf of the Underwriters) immediately in writing in the event that he/she/it becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of the Relevant Securities affected. Upon receiving such information in writing, the Company will, as soon as practicable, make a public disclosure by way of a press announcement.

7. Amerose, as a Significant Shareholder, has undertaken to the Company, the Stock Exchange, the Sponsor (in its capacity as sponsor of the Placing) and the Underwriters and each of them that at any time during the 6-Month Lock-up Period:

- (i) he/she/it will place in escrow with an escrow agent acceptable to the Company and approved by the Sponsor his/her/its Relevant Securities on terms acceptable to the Stock Exchange and the Sponsor;
- (ii) he/she/it will not and shall procure that the registered holder(s) shall not, save as provided in Rule 13.18 of the GEM Listing Rules and with the prior written consent of the Sponsor, sell, transfer or otherwise dispose of or create any right (or enter into any agreement to do any of the above) in respect of any of his/her/its direct or indirect interest in the Relevant Securities; and
- (iii) (A) in the event that he/she/it pledges or charges any direct or indirect interest in the Relevant Securities under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules, he/she/it must inform the Company and the Sponsor (for itself and on behalf of the Underwriters) immediately in writing of such pledge or charge together with the details as specified in Rules 17.43(1) to (4) of the GEM Listing Rules; and (B) having pledged or charged any of his/her/its interest in the Relevant Securities, he/she/it must inform the Company and the Sponsor (for itself and on behalf of the Underwriters) immediately in writing in the event that he/she/it becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of the Relevant Securities affected. Upon receiving such information in writing, the Company will, as soon as practicable, make a public disclosure by way of a press announcement.

8. Save as disclosed herein, none of the ultimate shareholders of Amerose, Baserich, Dragon Master and Eagle Creek has any other arrangement, agreement, undertaking or otherwise amongst themselves or with the Company, the Sponsor or the Underwriters in respect of the Shares and the price thereof upon the listing of the Shares on GEM.

# SUMMARY

## TRADING RECORD

The following table is a summary of the combined audited results of the Group for the two years ended 30th June, 2001 and the six months ended 31st December, 2001. The summary is prepared on the assumption that the current structure of the Group had been in existence throughout the period under review and should be read in conjunction with the accountants' report set out in Appendix I to this prospectus.

	<b>Year ended 30th June,</b>		<b>Six months ended 31st December,</b>
	<b>2000</b>	<b>2001</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover ( <i>Note 1</i> )	23,472	28,267	12,711
Cost of sales	<u>(19,463)</u>	<u>(21,969)</u>	<u>(9,641)</u>
Gross profit	4,009	6,298	3,070
Other revenue	2	19	1
Selling and distribution costs	(1,830)	(1,362)	(585)
Administrative expenses	(4,148)	(4,011)	(1,797)
Other operating expenses	<u>(995)</u>	<u>—</u>	<u>—</u>
Profit/(loss) from operating activities	(2,962)	944	689
Finance costs	<u>(55)</u>	<u>(52)</u>	<u>(24)</u>
Profit/(loss) before tax	(3,017)	892	665
Tax	<u>(70)</u>	<u>(45)</u>	<u>(18)</u>
Net profit/(loss) attributable to Shareholders	<u><u>(3,087)</u></u>	<u><u>847</u></u>	<u><u>647</u></u>
Dividends	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>
Earnings/(loss) per Share - basic ( <i>Note 2</i> )	<u><u>(0.91) cent</u></u>	<u><u>0.25 cent</u></u>	<u><u>0.19 cent</u></u>

*Notes:*

1. Turnover represents the net invoiced value of goods sold and gross receipt from the licensing and sub-licensing of film rights.
2. The calculation of the earnings/(loss) per Share is based on the net profit/(loss) for each of the two years ended 30th June, 2001 and the six months ended 31st December, 2001 and on the assumption that 340,000,000 Shares had been in issue throughout the two years ended 30th June, 2001 and the six months ended 31st December, 2001, comprising 10,000,000 Shares in issue as at the date of this prospectus and 330,000,000 Shares to be issued pursuant to the Capitalisation Issue.

## SUMMARY

### WAIVER FROM COMPLIANCE WITH THE GEM LISTING RULES AND THE COMPANIES ORDINANCE

#### *The Companies Ordinance*

According to paragraph 27 of Part I of the Third Schedule to the Companies Ordinance (“Paragraph 27”) as amended by the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (L.N. 76 of 2001) (“Exemption Notice”), the Company is required to include in this prospectus a statement as to the gross trading income or sales turnover (as may be appropriate) of the Group during the two financial years immediately preceding the issue of this prospectus.

According to paragraph 31 of Part II of the Third Schedule to the Companies Ordinance (“Paragraph 31”) as amended by the Exemption Notice, the Company is required to include in this prospectus a report by the auditors and reporting accountants of the Company with respect to the financial results of the Group for each of the two financial years immediately preceding the issue of this prospectus.

The Company has applied to the SFC for a certificate of exemption from strict compliance with Paragraph 27 and Paragraph 31 on the ground that full compliance with the same would be unduly burdensome on the Company. The SFC has granted a certificate of exemption in relation to Paragraph 27 and Paragraph 31 so that the Group is only required to include in this prospectus its trading record, financial results and information covering the period for the two financial years ended 30th June, 2001 and the six months ended 31st December, 2001.

#### *The GEM Listing Rules*

According to Rule 7.03(1) of the GEM Listing Rules, it is required that in the case of a new applicant, the accountants’ report must include the results of the issuer or, if the issuer is a holding company, the consolidated results of the issuer and its subsidiaries covering at least the two financial years immediately preceding the issue of the listing document.

Rule 11.10 of the GEM Listing Rules requires that a new applicant must have an accountants’ report prepared in accordance with Chapter 7 of the GEM Listing Rules covering at least two financial years immediately preceding the issue of the listing document.

According to Rule 11.11 of the GEM Listing Rules, the latest financial period reported on by the reporting accountants must not have ended more than six months before the date of this prospectus. The latest financial period reported on the accountants’ report set out in Appendix I to this prospectus is for the six months ended 31st December, 2001, which is more than six months from the date of this prospectus.

## SUMMARY

The Company has applied for a waiver from strict compliance with Rules 7.03(1), 11.10 and 11.11 of the GEM Listing Rules from the Stock Exchange. The Stock Exchange has granted the waivers such that the accountants' report set out in Appendix I to this prospectus is only required to cover the period for the two financial years ended 30th June, 2001 and the six months ended 31st December, 2001.

The Directors confirm that they have performed sufficient due diligence on the Group to ensure that up to the date of this prospectus and save as disclosed in this prospectus, there has been no material adverse change in the financial position of the Group since 31st December, 2001 and they are not aware of any event which would materially affect the information shown in the accountants' report set out in Appendix I to this prospectus.

### PLACING STATISTICS

Placing Price ..... HK\$0.50 per Share

Market capitalisation (*Note 2*) ..... HK\$200 million

Adjusted net tangible asset value per Share (*Note 3*) ..... 6.55 cents

#### Notes:

1. Except where otherwise indicated, the statistics have been prepared on the assumption that no Shares will be allotted and issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme.
2. The calculation of the market capitalisation is based on the Placing Price and 400,000,000 Shares in issue and to be issued immediately after completion of the Placing but takes no account of any Over-allotment Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may fall to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme or which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in Appendix IV to this prospectus.
3. The adjusted net tangible asset value per Share has been arrived at after the adjustments referred to in the paragraph headed "Adjusted net tangible assets" under the section headed "Financial information" in this prospectus and on the basis of 400,000,000 Shares in issue and to be issued as mentioned under the section headed "Share capital" in this prospectus, but takes no account of any Over-allotment Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may fall to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme or which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in Appendix IV to this prospectus.

# SUMMARY

## USE OF PROCEEDS

The net proceeds from the New Issue (on the basis that the Over-allotment Option is not exercised and after deducting related expenses) are estimated to be approximately HK\$24.0 million. The Directors presently intend that the net proceeds will be applied as follows:

	From the Latest Practicable Date to 31st December, 2002	For the six months ending 30th June, 2003	For the six months ending 31st December, 2003	For the six months ending 30th June, 2004	For the six months ending 31st December, 2004	For the six months ending 30th June, 2005	Total
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
For the enhancement of production equipment	0.7	1.5	1.5	1.8	—	—	5.5
Improvement of cast and quality of movies	0.3	0.5	0.8	0.9	—	—	2.5
For sales and marketing	0.5	1.0	1.5	1.5	—	—	4.5
For the development and training of human resources (Note)	0.5	0.5	1.0	1.0	—	—	3.0
For promoting the screening of the Group's movies in cinemas in Hong Kong and development of new business	1.0	0.5	1.5	1.5	—	—	4.5
<b>Total</b>	<b>3.0</b>	<b>4.0</b>	<b>6.3</b>	<b>6.7</b>	<b>—</b>	<b>—</b>	<b>20.0</b>

Note: The Directors consider that the total amount of HK\$3.0 million are estimated to be utilised as follows:

	<i>HK\$ million</i>
Recruitment of tuition staff	0.5
Setting up of training centre	1.0
Acquisition of equipment for training	1.0
Invitation of visiting lecturers	0.5
	3.0

## SUMMARY

The remaining balance of approximately HK\$4.0 million will be used as general working capital of the Group.

The Directors consider that the net proceeds from the New Issue will be sufficient to finance the Group's business plans as scheduled up to the year ending 30th June, 2004 and the amount which will be required for the year ending 30th June, 2005 is expected to be financed by internal resources of the Group.

Should the Over-allotment Option be exercised in full, the Company will receive additional net proceeds of approximately HK\$7.2 million, together with the net proceeds from the New Issue and after deducting related expenses, will amount to a total of approximately HK\$31.2 million. The Directors intend to use the additional net proceeds of approximately HK\$7.2 million, raised from the exercise of the Over-allotment Option as to approximately HK\$4 million for the production of the movies of the Group and as to the balance of approximately HK\$3.2 million as additional general working capital of the Group.

To the extent that the net proceeds from the New Issue are not immediately required for the above purposes, it is the present intention of the Directors that such net proceeds will be placed on short term interest bearing deposits with authorised financial institutions in Hong Kong.

The Directors believe that the Group will have sufficient funding for the implementation of the Group's business plans.

### **RISK FACTORS**

The Directors consider that the business of the Group is subject to a number of risk factors which may affect future results of the Group. These risk factors are summarised as follows:

#### **Risks relating to the Group**

- Reliance on major customers
- Reliance on overseas film producers
- Reliance on independent sub-contractors
- Reliance on financing from a Director
- Failure to protect its intellectual property rights
- Failure to keep abreast of the rapid change in the technology within the industry
- Failure to achieve its business objectives

## SUMMARY

- History of losses during the Track Record Period and net liabilities
- Reliance on key management and personnel
- No written agreement with and reliance on one cinema operator

### **Risks relating to the industry**

- Competition
- Piracy

### **Risks relating to the Shares to be dealt on GEM**

- Activeness of the trading market for the Shares
- Possible volatility of the Share price
- Dilution effect on the exercise of the options under the Share Option Scheme
- Control of the Initial Management Shareholders
- No independent verification of certain statistics

## DEFINITIONS

*In this prospectus, unless the context otherwise requires, the following expressions have the following meanings:*

“Amerose”	Amerose International Limited, a company incorporated in BVI with limited liability and whose shares are beneficially owned by seven individual investors who are (i) independent third parties not connected with any of the Directors, chief executives, the Initial Management Shareholders or the Substantial Shareholders or any of their respective associates (save for Ms. Siu Mei Suen who is the sister of Mr. Siu and Ms. Siu Yin Ping, who is the wife of Mr. Cheng Wing Ming) and none of them has been involved in the management or operation of the Group and (ii) independent of each other (save for Ms. Siu Yin Ping, who is the wife of Mr. Cheng Wing Ming). Amerose is engaged in the business of investment holding
“associate”	has the same meaning as defined in the GEM Listing Rules
“B & S Films Distribution”	B & S Films Distribution Company Limited, a company incorporated in Hong Kong and a wholly owned subsidiary of the Company
“B & S Films Production”	B & S Films Production Limited, a company incorporated in Hong Kong and a wholly owned subsidiary of the Company
“B & S Group”	B & S Group Limited, a company incorporated in BVI and a wholly owned subsidiary of the Company
“Baserich”	Baserich International Limited, a company incorporated in BVI with limited liability whose shares are beneficially owned as to approximately 43.9%, 34.2%, 14.6% and 7.3% by Mr. Lee Tat Chiu, Mr. Hung, Mr. Lee Tat Keung and Mr. Poon King Hei respectively, and being one of the Initial Management Shareholders. Baserich is engaged in the business of investment holding
“Best Faith”	Best Faith (Hong Kong) Limited, a company incorporated in Hong Kong and a wholly owned subsidiary of the Company

## DEFINITIONS

“Board”	the board of Directors
“BVI”	the British Virgin Islands
“Capitalisation Issue”	the issue of Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of the Company referred to in the paragraph headed “Written resolutions of the sole Shareholder passed on 22nd July, 2002” under the section headed “Further information about the Company and its subsidiaries” in Appendix IV to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (as amended from time to time)
“Company”	B&S Entertainment Holdings Limited 中大娛樂控股有限公司, a company incorporated in the Cayman Islands on 11th April, 2002 with limited liability
“Controlling Shareholder”	Coxwell
“Coxwell”	Coxwell Corp., a company incorporated in BVI with limited liability and whose shares are beneficially owned as to approximately 33.33%, 33.33% and 33.33% by Mr. Siu, Mr. Siu Kuen Fat and Mr. Siu Kin Fat respectively, and being one of the Initial Management Shareholders, the Controlling Shareholder and the Vendor. Coxwell is engaged in the business of investment holding
“Director(s)”	the director(s) of the Company for the time being
“Dragon Master”	Dragon Master Associates Limited, a company incorporated in BVI with limited liability and whose shares are beneficially owned as to 50% by each of Ms. Man Ka Bo and Ms. Lo Man Ling, and being one of the Initial Management Shareholders. Dragon Master is engaged in the business of investment holding

## DEFINITIONS

“Eagle Creek”	Eagle Creek Group Limited, a company incorporated in BVI with limited liability and whose shares are beneficially owned as to approximately 48.2%, 22.2% and 29.6% by Ms. Ho Ying Tai, Mr. Ho Kai Yung and Ms. Yung Mei Ling respectively who are (i) independent third parties not connected with any of the Directors, chief executives of the Company, the Initial Management Shareholders or the Substantial Shareholders or any of their respective associates and none of them has been involved in the management or operation of the Group and (ii) independent of each other. Eagle Creek is engaged in the business of investment holding
“Far East Asia”	Far East Asia Investment Limited, a company incorporated in BVI and is beneficially wholly owned by Mr. Hung and engaged in the business of provision of actors, film directors and martial art instructors to the film industry
“Fleur Group”	Fleur Group Limited, a company incorporated in BVI with limited liability and a wholly owned subsidiary of the Company
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Committee”	the listing sub-committee of the board of the Stock Exchange with responsibility for GEM
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM as amended by the Stock Exchange from time to time
“GEM website”	<a href="http://www.hkgem.com">www.hkgem.com</a> , being the internet website operated by the Stock Exchange for the purposes of GEM
“Greater China region”	the PRC, Hong Kong and the Macau Special Administrative Region of the PRC
“Group”	the Company together with its subsidiaries or any of them or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, the present subsidiaries of the Company and the companies/entities which carried on the existing business of the Group prior to the Reorganisation, and the member of the Group shall mean any one of the above
“HKSCC”	Hong Kong Securities Clearing Company Limited

## DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Initial Management Shareholder(s)”	Coxwell, Dragon Master, Baserich and, by reason of the shareholdings in the said companies, Mr. Siu, Mr. Siu Kin Fat, Mr. Siu Kuen Fat, Mr. Hung, Ms. Man Ka Bo and Ms. Lo Man Ling, details of their interests in the Company are described under the section headed “Initial management, substantial and significant shareholders” in this prospectus
“Kim Eng Capital” or “Sponsor”	Kim Eng Capital (Hong Kong) Limited, an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong), acting as the sponsor of the Placing
“Latest Practicable Date”	22nd July, 2002, being the latest practicable date before the printing of this prospectus for ascertaining certain information referred to in this prospectus
“Lead Manager”	Shenyin Wanguo Capital (H.K.) Limited, an investment adviser and a dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong), acting as the lead manager of the Placing
“Listing Date”	the date of commencement of dealings in the Shares on GEM
“Main Board”	the stock market operated by the Stock Exchange, which excludes GEM and the options market
“MPIA”	the Motion Picture Industry Association
“Mr. Hung”	Mr. Hung Kam Po, a non-executive Director
“Mr. Siu”	Mr. Siu Luen Fat, an executive Director and the chairman of the Company
“New Issue”	the issue of the New Shares at the Placing Price under the Placing
“New Shares”	the 60,000,000 new Shares initially being offered by the Company for subscription at the Placing Price under the Placing and, where applicable, any Over-allotment Shares

## DEFINITIONS

“Over-allotment Option”	the option granted by the Company to the Underwriters (exercisable by the Lead Manager on behalf of the Underwriters) under the Underwriting Agreement pursuant to which the Company may be required to allot and issue the Over-allotment Shares at the Placing Price to cover over-allocations in the Placing, if any
“Over-allotment Shares”	up to an aggregate of 15,000,000 Shares, representing 15% of the total number of Shares initially available under the Placing, which may be allotted and issued by the Company pursuant to the exercise of the Over-allotment Option
“Placing”	the conditional placing of the Placing Shares with professional, institutional, individual and other investors, as described under the section headed “Structure of the Placing” in this prospectus
“Placing Price”	the price of HK\$0.50 per Placing Share (excluding the Stock Exchange trading fee, the SFC transaction levy and the brokerage payable thereon) under the Placing
“Placing Shares” or “Offer Shares”	the New Shares and the Sale Shares
“PRC”	the People’s Republic of China which, for the purpose of this prospectus, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Relevant Securities”	has the meaning ascribed to it in Rule 13.15(4) of the GEM Listing Rules
“Reorganisation”	the reorganisation of the group of companies which formed the Group, as more particularly described in the paragraph headed “Corporate reorganisation” under the section headed “Further information about the Company and its subsidiaries” in Appendix IV to this prospectus
“Sale Shares”	the 40,000,000 existing Shares being offered for sale by the Vendor at the Placing Price pursuant to the Placing
“SDI Ordinance”	the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
“SFC”	the Securities and Futures Commission of Hong Kong
“Share(s)”	ordinary share(s) of HK\$0.01 each in the capital of the Company

## DEFINITIONS

“Share Option Scheme”	the share option scheme conditionally approved and adopted by the Company on 22nd July, 2002, the principal terms of which are summarised in the section headed “Share Option Scheme” in Appendix IV to this prospectus
“Shareholder(s)”	holder(s) of the Share(s)
“Significant Shareholder”	by reason of his shareholdings in Baserich, Mr. Lee Tat Chiu, Amerose and, by reason of his shareholdings in Amerose, Mr. Cheng Wing Ming, details of their interests in the Company are set out under the section headed “Initial management, substantial and significant shareholders” in this prospectus
“Sponsor Agreement”	the sponsor’s agreement dated 29th July, 2002 entered into between the Company and Kim Eng Capital
“Stock Borrowing Agreement”	a stock borrowing agreement dated 29th July, 2002 entered into between the Lead Manager as borrower and Coxwell as lender
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Substantial Shareholder(s)”	Baserich and Coxwell
“Track Record Period”	the period comprising the two years ended 30th June, 2001 and the six months ended 31st December, 2001
“Underwriters”	Shenyin Wanguo Capital (H.K.) Limited, Taiwan Concord Capital Securities (Hong Kong) Limited, CSC Securities (HK) Limited, Grand Cathay Securities (Hong Kong) Limited and Phoenix Capital Securities Limited
“Underwriting Agreement”	the underwriting and placing agreement dated 29th July, 2002 made between, inter alia, the Company, the Vendor, the Sponsor, the Lead Manager and the Underwriters relating to the Placing
“US”	the United States of America
“Vendor”	Coxwell
“6-Month Lock Up Period”	the period commencing on the date of the Underwriting Agreement up to and including the date falling 6 months after the Listing Date

## DEFINITIONS

“12-Month Lock Up Period”	the period commencing on the date of the Underwriting Agreement up to and including the date falling 12 months after the Listing Date
“HK\$”, “HK dollars” and “cents”	Hong Kong dollar(s) and cent(s) respectively, the lawful currency of Hong Kong
“US\$”	US dollar(s), the lawful currency of the US
“%”	per cent.

### Notes:

- Except as otherwise indicated, all relevant information in this prospectus assumes that the Over-allotment Option is not exercised and does not take into account any Shares that may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.*
- For the purpose of this prospectus, unless otherwise specified, the translation of an amount in US\$ into HK\$ in this prospectus is based on the approximate exchange rate of HK\$7.75 to US\$1.00.*

## GLOSSARY

“DV”	digital video
“DVD”	digital video disc(s) or digital versatile disc(s), a type of video disc
“Internet”	a global network of interconnected, but separately administered public and private computers that use the transmission content for communication
“TV”	television
“VCD”	video compact disc(s), in 5 inch disc based format, using a comprehensive technology to compress the video signal which, when used with a specialised reproduction apparatus, causes a continuous visual image to be produced on the screen of TV receiver for viewing

## RISK FACTORS

*Potential investors should carefully consider all the information set out in this prospectus and, in particular, should evaluate the following risks before deciding to invest in the Placing Shares.*

### **RISKS RELATING TO THE GROUP**

#### **Reliance on major customers**

For each of the two years ended 30th June, 2001 and the six months ended 31st December, 2001, the Group's sales to its five largest customers accounted for approximately 85.9%, 84.9% and 87.1% of the total turnover of the Group respectively. On the other hand, sales to the Group's largest customer for each of the two years ended 30th June, 2001 and the six months ended 31st December, 2001 accounted for approximately 64.8%, 49.2% and 30.7% of the total turnover of the Group respectively. All of the Group's five largest customers, who were film right and video distributors, for each of the two years ended 30th June, 2001 and the six months ended 31st December, 2001 are independent of and not connected with the Group, the Directors and their respective associates or any Shareholders owning more than 5% of the issued share capital of the Company immediately after the Placing and the Capitalisation Issue. At the Latest Practicable Date, the Group has not entered into any long term sales contracts with its customers. Any significant reduction in the level of sales to these customers could have an adverse impact on the Group's performance and profitability.

#### **Reliance on overseas film producers**

During the year ended 30th June, 2001 and the six months ended 31st December, 2001, approximately 49.2% and 30.7% of the Group's turnover were generated from the sub-licensing of film rights of movies procured by the Group from overseas film producers through independent third party in Hong Kong. The Directors expect that the Group will mainly concentrate on the distribution of movies produced by the Group and engage in the sub-licensing of film rights when opportunities arise. In the event that the Group continue to engage in the business of sub-licensing of movies and the Group fails to procure such movies, the Group's profitability may be adversely affected.

#### **Reliance on independent sub-contractors**

The Group engages independent sub-contractors for carrying out more than 90% of the production of the Group's movies including the shooting, pre-shooting and post-production services such as subtitling, colour analyzing and the incorporation of special and sound effects. Since the development of digital filming is still at an infant stage in Hong Kong, to the best knowledge of the Directors, only a few companies possess the necessary equipment and technologies to provide post-production services for digital filming. These sub-contractors engaged by the Group are independent third parties not connected with any directors, chief executive, management shareholders or substantial shareholders of the Company or any of its

## RISK FACTORS

subsidiaries, or associates of any of them. In the event that these sub-contractors are unable to provide quality services in accordance with the Group's specifications, the Group's ability to efficiently produce and distribute its movies may be restricted and these may have adverse impact on the Group's business and profitability.

### **Reliance on financing from a Director**

As at 30th June, 2000, 30th June, 2001 and 31st December, 2001, the amount due to a Director, Mr. Siu amounted to HK\$41,147,000, HK\$32,608,000 and HK\$27,674,000 respectively. On 22nd July, 2002, a sum of HK\$17,550,000 due by the Group to Mr. Siu has been capitalized.

Mr. Siu has undertaken to the Company that he will not demand repayment of any outstanding amount due to him from the Listing Date to 30th June, 2005. From 30th June, 2005 onward, Mr. Siu will not demand for repayment of any outstanding amount unless (i) the Group has positive cash flow and retained earnings in the financial year immediately preceding the financial year in which the repayment is required to be made and such positive cash flow is sufficient to fund the repayment of the amount due and all the working capital needs of the Group for the financial year in which such repayment is required to be made; and (ii) each of the then independent non-executive Directors confirms that such repayment will not adversely affect the Group's operations or the implementation of its business plans during the period from the Latest Practicable Date to 30th June, 2005.

If the Group is unable to generate sufficient cash flows from its operations, such operation will have to be funded by the proceeds from the New Issue and other sources of financing. In the event that the Group is unable to obtain adequate financing, in particular, among other things, funding from the Directors, its business and operations may be adversely affected.

### **Failure to protect its intellectual property rights**

#### *Intellectual property rights*

The copyright of the movies produced by the Group is governed by the respective contracts made between the Group and the film directors, actors and actresses of the relevant movies and all of the movies produced by the Group are registered with MPIA. Practically, the registration of the Group's movies with MPIA cannot protect the copyright of such movies.

There is no legally recognised system for registration of the owners of intellectual property rights of films in Hong Kong and it is impossible to resort to one single reference for the purpose of identifying owners of copyright in films. According to the Copyright Ordinance (Chapter 258 of the Laws of Hong Kong), the Group, as the producer, and other principal directors of the films, are the first joint owners of the copyright in films. However, as one of the first joint owners of the copyright, the Group may be involved in possible claims by various other parties involved in the film, including directors, actors and actresses of the film, for copyright in their respective works which form part of the film, such as the script and the soundtrack.

## RISK FACTORS

From a defensive perspective, in sourcing works from third parties, the Group will require warranties on the intellectual property rights in their works and indemnity from them in case of any breach. The Group also maintains close monitoring on responses from customers and suppliers and other market intelligence.

Save for the above and the applications for trademark registrations and domain name registrations as disclosed in the paragraph headed “Intellectual property” in Appendix IV to this prospectus, the Group has not taken other steps for the protection of its intellectual property rights. If the Group decides to proceed with applications or take other steps for such protection in the future, there is no assurance that such applications or steps will not be opposed by third parties or be successful. It may be possible for a third party to copy or otherwise obtain and use the Group’s intellectual property without its authorisation, or to develop similar intellectual property independently. In addition, there are countries where effective copyright, patent, trademark and trade secret protection may be unavailable or limited, or the enforcement of which is not satisfactory to protect the owner of the intellectual property rights. Policing unauthorised use of its proprietary rights is difficult, time consuming and costly, especially where multiple jurisdictions are involved, and there is no assurance that the steps taken by the Group will prevent misappropriation or infringement of the Group’s intellectual property rights.

### *Potential litigation and claims*

In addition, litigation may be necessary in the future to enforce the Group’s intellectual property rights, to protect the Group’s trade secrets or to determine the validity and scope of the proprietary rights of others, all of which could result in substantial costs and diversion of the Group’s resources and its management’s time and, as a result, may significantly harm the Group’s business.

In the event of any claim or dispute between the Group and the producers, directors, actors and actresses in relation to the copyright of the movies produced by the Group, the same will be dealt with in accordance with the terms of the relevant contract. The Group usually uses a practical approach (such as research at the preliminary stage of development of a movie to be produced by the Group) to avoid direct infringement of intellectual property rights belonging to third party. However, due to the nature of the Group’s business, such measure does not preclude the Group from possible involvement in litigation relating to intellectual property rights.

The Directors are not presently aware of any alleged claims against the Group in respect of infringement of intellectual property rights held by third parties in respect of the movies produced by the Group. However, the Directors may not be able to ascertain whether the Group will be subject to any legal proceedings and claims relating to the intellectual property rights of any third party. Intellectual property rights litigation may be expensive and time consuming, and successful infringement claims against the Group may result in substantial monetary liability or disruption to the operation of the Group.

## RISK FACTORS

### **Failure to keep abreast of the rapid change in the technology within the industry**

The technology used in DV filming is subject to rapid and significant changes. It is difficult to predict the effect of emerging and future technological changes on the viability or competitiveness of the Group's business. Accordingly, whilst the Group strives to follow technological developments to keep its technology up to date, there can be no assurance that the technology currently employed by the Group will not become obsolete or subject to competition from new technology in the future.

### **Failure to achieve its business objectives**

The future plans as set out in this prospectus are formulated based on a number of assumptions of future events, which by their nature are subject to changes and uncertainties and may not materialise. Although the Directors will endeavour to execute such plans in accordance with the proposed timeframe as set out in the section headed "Statement of business objectives" in this prospectus, there is no assurance that the plans of the Group will materialise or be executed in accordance with the said timeframe, or that the objectives of the Group will be fully accomplished or accomplished at all.

Moreover, the Group's business plans as scheduled up to the year ending 30th June, 2004 is expected to be financed by the net proceeds from the Placing and the amount which will be required for the year ending 30th June, 2005 is expected to be financed by internal resources of the Group. In the event that the net proceeds and/or the internal resources of the Group is insufficient to finance the business plans and the Group is unable to raise funds through other financing activities, the business plans of the Group may not materialise or be executed as set out in this prospectus.

### **History of losses during the Track Record Period and net liabilities**

Due to its limited operating history, the Group has incurred net losses of approximately HK\$3.1 million for the year ended 30th June, 2000 and net profits of HK\$0.8 million and HK\$0.6 million for the year ended 30th June, 2001 and the six months ended 31st December, 2001 respectively. In addition, the Group recorded net liabilities of approximately HK\$18.4 million as at 30th June, 2000, HK\$17.6 million as at 30th June, 2001 and HK\$16.9 million as at 31st December, 2001. Since its incorporation, the Group's operations were financed by equity funding, operating cash flows and loans from a Director, Mr. Siu. Prior to the Reorganisation, loans due from the Group to a Director amounted to approximately HK\$28.3 million as at 31st May, 2002 and was unsecured and interest-free. Nevertheless, the financial information as set out in the accountants' report has been prepared on a going concern basis, which the Directors believe to be appropriate because:

- (a) HK\$17.55 million of the amount due to a Director, was capitalised by the allotment and issue of shares in the capital of B & S Group on 22nd July, 2002; and

## RISK FACTORS

- (b) Mr. Siu has undertaken to the Company that he will not demand repayment of any outstanding amount due to him (1) from the Listing Date to 30th June, 2005; and (2) from 30th June, 2005 onward unless (i) the Group has positive cash flow and retained earnings in the financial year immediately preceding the financial year in which the repayment is required to be made and such positive cash flow is sufficient to fund the repayment of the amount due and all the working capital needs of the Group for the financial year in which such repayment is required to be made; and (ii) each of the then independent non-executive Directors confirms that such repayment will not adversely affect the Group's operations or the implementation of its business plans during the period from the Latest Practicable Date to 30th June, 2005.

Given its loss making in the year ended 30th June, 2000 and the net liabilities position as at 31st December, 2001 and in the event that it is unable to generate sufficient revenue in the future to meet its operating expenditure, the Group's operation will have to be funded by the proceeds from the New Issue and other financing activities. In the event that the Group is unable to obtain adequate financing to fund its operations and for the pursuit of its business plan, the existing operations, performance and prospects of the Group as well as its ability to implement its business plan will be adversely affected.

### **Reliance on key management and personnel**

The Directors believe that one of the key factors for the Group's success is attributable to the key management and personnel namely, Mr. Siu, Mr. Siu Kuen Fat and Mr. Siu Kin Fat whose expertise and experience in the business brought the Group to success. Moreover, their well-established relationships with other members of the industry are important to the future success of the Group. Failure to retain any of the key management and personnel and/or the failure to recruit additional high calibre personnel may adversely affect the Group's business.

### **No written agreement with and reliance on one cinema operator**

The DV format movies produced by the Group have been distributed in Hong Kong mainly to distributors and/or one cinema operator in Hong Kong. The Group has an arrangement with such cinema operator and pursuant to which, the cinema operator has refurbished the cinema and installed relevant equipment with the capability to screen DV format movie at the cinema. As at the Latest Practicable Date, there is no written agreement between the Group and the cinema operator and it is by mutual understanding between the Group and the cinema operator that such an arrangement will continue indefinitely. Should the cinema operator decide to cease to co-operate with the Group and the Group cannot arrange for other cinema operators to screen the DV movie produced by the Group, the Group's revenue and profitability may be adversely affected.

## RISKS RELATING TO THE INDUSTRY

### Competition

The Group is subject to competition mainly from other local film producers and distributors. The better atmosphere in the film market in Hong Kong over recent years may attract new entrants to the film industry as film producers and/or distributors. If there is a significant increase in participants in the industry and the Group cannot cope with such market change, the Group's market share and profitability may be adversely affected.

### Piracy

During the two years ended 30th June, 2001 and the six months ended 31st December, 2001, all of the Group's turnover was generated from the distribution and licensing of film rights. If the piracy activities in Hong Kong and/or the Group's principal market (including the sale of pirated films in video, VCD, and/or DVD format and illegal download of films from the Internet) are rampant, the revenue and the profitability of the Group may be adversely affected.

## RISKS RELATING TO THE SHARES TO BE DEALT ON GEM

### Activeness of the trading market for the Shares

The Company cannot assure prospective investors that an active trading market for the Shares will develop, or, if it does develop, will be sustained following completion of the Placing.

### Possible volatility of the Share price

The market price of the Shares may fluctuate significantly in response to many factors, which are beyond the control of the Directors. These factors include:

- investors' perception of the Group and its business prospects;
- technological innovations;
- introduction of new technologies or products by the Group's competitors;
- general stock market conditions; and
- general economics and other factors.

## RISK FACTORS

### **Dilution effect on the exercise of the options under the Share Option Scheme**

Pursuant to the Share Option Scheme and the GEM Listing Rules, the Company may, subject to certain conditions, grant options to certain class of individuals to subscribe for Shares of up to a maximum of 30% of the issued share capital of the Company from time to time. In the event that the Company grants any options and the option holders exercise their options in full, the Shareholders should be aware that there may be material dilution in their shareholdings in the Company.

### **Control of the Initial Management Shareholders**

Upon completion of the Placing (assuming the Over-allotment Option is not exercised and taking no account of any Share that may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), approximately 63.3% of the issued share capital of the Company will be owned by the Initial Management Shareholders and their respective associates. Such concentration of ownership of the shareholding may potentially dictate the outcome of certain matters requiring Shareholders' approval except for (i) matters which are subject to approval of the Shareholders by special resolutions; and (ii) matters which are subject to approval of the Shareholders where the Initial Management Shareholders are required to abstain from voting.

### **No independent verification of certain statistics**

Certain statistics quoted in this prospectus related to the business and the industry are derived from various unofficial publications. Such information has not been independently verified by the Company and may be incomplete or outdated. The Directors have taken reasonable care to ensure that the facts and statistics presented are accurately reproduced from these sources. The Directors and the Company make no representations as to the correctness of such statements and accordingly, such information should not be unduly relied upon.

# **WAIVER FROM COMPLIANCE WITH THE GEM LISTING RULES AND THE COMPANIES ORDINANCE**

*For the purpose of the listing of the Shares on GEM, the Company has obtained exemption from the SFC and the following waivers from the Stock Exchange from strict compliance to certain requirements under the Companies Ordinance and the GEM Listing Rules. Details of such exemption and waivers are described below:*

## **CONTINUING CONNECTED TRANSACTION**

The Group has entered and will continue to enter into a transaction which constitutes a non-exempted continuing connected transaction for the Company under the GEM Listing Rules upon the listing of the Shares on GEM (“Non-exempted Continuing Connected Transaction”). Such Non-exempted Continuing Connected Transaction relates to the payment of an actor’s fee for Mr. Hung’s participation in the production of movies to be produced by the Group to a company in which Mr. Hung is a director and has beneficial interests. Details of the Non-exempted Continuing Connected Transaction are set out in the paragraph headed “Connected transactions” in the section headed “Business” in this prospectus.

The Directors (including the independent non-executive Directors) are of the opinion that the above transaction is in the normal and usual course of business of the Group and is conducted on an arm’s length basis on normal commercial terms, is fair and reasonable and in the interest of the Shareholders and the Company as a whole.

The Sponsor is of the view that the Non-exempted Continuing Connected Transaction referred to the above is in the ordinary and usual course of the Company’s business and is fair and reasonable and in the interest of the Shareholders and the Company as a whole having regard to the circumstances in which they were entered into. The Sponsor also considers that, to its best knowledge, the transaction referred to above is based on normal commercial and industry practice.

## **Waiver**

The Company has applied to the GEM Listing Division, in respect of the Non-exempted Continuing Connected Transaction, for a waiver for the announcement requirement as required under Rule 20.35 of the GEM Listing Rules and the Shareholders’ approval requirement as set out in Rule 20.36 of the GEM Listing Rules for the two years ending 30th June, 2004. The Stock Exchange has granted a waiver to the Company from strict compliance with the requirements under Rules 20.35 and 20.36 of the GEM Listing Rules on the condition that:

- (a) the amount of the utilisation of such payment of actors’ fee will not exceed HK\$2 million for each of the two financial years ending 30th June, 2004;
- (b) details of the Non-exempted Continuing Connected Transaction shall be disclosed in the next and each successive annual report and accounts of the Company in accordance with Rule 20.34 of the GEM Listing Rules;

## **WAIVER FROM COMPLIANCE WITH THE GEM LISTING RULES AND THE COMPANIES ORDINANCE**

- (c) the independent non-executive Directors shall review the Non-exempted Continuing Connected Transaction annually and confirm in the annual report and accounts of the Company that such transaction has been entered into:
- (i) in the ordinary and usual course of business of the Group;
  - (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and
  - (iii) in accordance with the relevant agreement governing them and on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (d) the Company shall engage the auditors of the Company to provide the Board with a letter (with a copy to the Stock Exchange) in respect of each relevant financial year, during which the Non-exempted Continuing Connected Transaction is conducted, confirming that such transaction;
- (i) has received the approval from the Board;
  - (ii) is in accordance with the pricing policies of the Group if the transaction involves provision of goods or services by the Group;
  - (iii) has been entered into in accordance with the terms of the respective agreement governing such transaction; and
  - (iv) has not exceeded the limit agreed with the Stock Exchange, if applicable, in respect of the Non-exempted Continuing Connected Transaction (the “Cap”);
- (e) the Company shall promptly notify the GEM Listing Division if it knows or has reason to believe that the independent non-executive Directors and/or the auditors of the Company will not be able to confirm the matters set out in Rules 20.27 and/or 20.28 of the GEM Listing Rules respectively, in which event the Company may again have to comply with Rules 20.26(3) and (4) and any other conditions in which the GEM Listing Division considers appropriate;
- (f) in addition to complying with Rules 20.26 to 20.28 of the GEM Listing Rules, where the aggregate consideration under the Non-exempted Continuing Connected Transaction in any year is greater than the higher of HK\$10,000,000 or 3% of the net tangible assets of the Group, the transaction and the Cap are subject to review and re-approval in each subsequent annual general meeting so long as the transaction continues. The independent non-executive Directors will be required to opine in the annual report whether or not the Company should continue with the transaction; and

## **WAIVER FROM COMPLIANCE WITH THE GEM LISTING RULES AND THE COMPANIES ORDINANCE**

- (g) the Group and each of the relevant connected parties undertake to provide the auditors of the Group with sufficient access to their respective relevant records to carry out the review of a report on the Non-exempted Continuing Connected Transaction.

If the Non-exempted Continuing Connected Transaction continues after the expiry of the current waiver on 30th June, 2004, the Company will comply with the provisions of Chapter 20 of the GEM Listing Rules in relation to such Non-exempted Continuing Connected Transaction unless the Company has obtained another waiver from the Stock Exchange in relation thereto.

For further information, please refer to the paragraph headed “Connected Transactions” under the section headed “Business” of this prospectus.

### **PARAGRAPHS 27 AND 31 OF THE THIRD SCHEDULE TO THE COMPANIES ORDINANCE AND RULES 7.03(1), 11.10 AND 11.11 OF THE GEM LISTING RULES IN RESPECT OF THE LATEST FINANCIAL PERIOD REPORTED ON BY THE REPORTING ACCOUNTANTS**

#### ***Requirements of the Companies Ordinance***

According to Paragraph 27 of Part I of the Third Schedule to the Companies Ordinance as amended by the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (L.N. 76 of 2001) (the “Exemption Notice”), the Company is required to include in this prospectus a statement as to the gross trading income or sales turnover (as may be appropriate) of the Group during the two financial years immediately preceding the issue of this prospectus.

According to Paragraph 31 of Part II of the Third Schedule to the Companies Ordinance as amended by the Exemption Notice, the Company is required to include in this prospectus a report by the auditors and reporting accountants of the Company with respect to the financial results of the Group for each of the two financial years immediately preceding the issue of this prospectus.

#### ***Requirements of the GEM Listing Rules***

Under Rules 7.03(1) and 11.10 of the GEM Listing Rules, the Company is required to include in this prospectus the financial results of the Group covering at least two financial years immediately preceding the issue of this prospectus.

The accountants’ report for each of the two years ended 30th June, 2001 and the six months ended 31st December, 2001 has been prepared and is set out in Appendix I to this prospectus. However, as this prospectus is issued within a short period of time after 30th June, 2002, the accountants’ report has not been prepared for the full year ended 30th June, 2002 as it would be unduly burdensome for the Company to do so.

## **WAIVER FROM COMPLIANCE WITH THE GEM LISTING RULES AND THE COMPANIES ORDINANCE**

Under Rule 11.11 of the GEM Listing Rules, the latest financial period reported on by the reporting accountants must not have ended more than six months before the date of this prospectus. As indicated in the accountants' report, the financial information of the Group has been audited up to 31st December, 2001, which is more than six months before the date of this prospectus.

In the circumstances, an application has been made to the SFC for a Certificate of Exemption from strict compliance with Paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance in relation to the inclusion of the accountants' report for the full year ended 30th June, 2002 in this prospectus and a Certificate of Exemption has been granted by the SFC.

An application has also been made to the Stock Exchange for a waiver from strict compliance with Rules 7.03(1), 11.10 and 11.11 of the GEM Listing Rules, and such waiver has been granted by the Stock Exchange. The Directors have confirmed that they have performed sufficient due diligence on the Group to ensure that, up to the date of this prospectus, there has been no material adverse change in the financial position of the Group since 31st December, 2001 and they are not aware of any event which would materially affect the information shown in the accountants' report of the Group as set out in Appendix I to this prospectus.

**DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS**

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Securities (Stock Exchange Listing) Rules 1989 of Hong Kong and the GEM Listing Rules for the purpose of giving information to the public with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (a) the information contained in this prospectus is accurate and complete and not misleading;
- (b) there are no other matters the omission of which would make any statement in this prospectus misleading; and
- (c) all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

**FULLY UNDERWRITTEN**

This prospectus sets out the terms and conditions of the Placing. This prospectus is published solely in connection with the Placing. The Placing is sponsored by Kim Eng Capital and fully underwritten by the Underwriters. Detailed information about the Underwriters and the underwriting and placing arrangements are set out under the section headed "Underwriting" in this prospectus.

**PLACING SHARES TO BE OFFERED IN HONG KONG ONLY**

No action has been taken in any jurisdiction other than Hong Kong to permit any public offering of the Placing Shares or the distribution of this prospectus other than in Hong Kong. This prospectus is not an offer or invitation in any jurisdiction in which it is not authorised, and is not an offer or invitation to any person to whom it is unlawful to make an unauthorised offer or invitation.

The Placing Shares are offered solely on the basis of the information contained, and the representations made, in this prospectus relating thereto. No person is authorised in connection with the Placing to give any information, or to make any representation, not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by the Company, the Vendor, the Sponsor, the Lead Manager, the Underwriters, or any other person or party involved in the Placing or their respective directors, officers, employees and/or representatives.

## **GENERAL**

Each person acquiring the Placing Shares will be required to, or be deemed by this acquisition of the Placing Shares to, contract that he is aware of the restrictions on offers of the Placing Shares described in this prospectus.

## **APPLICATION FOR LISTING OF THE SHARES ON GEM**

The Company has applied to the GEM Listing Committee for the listing of, and permission to deal in, its existing issued Shares, the New Shares, the new Shares to be issued pursuant to the Capitalisation Issue, any Shares which may fall to be issued pursuant to the exercise of options granted under the Share Option Scheme and any Over-allotment Shares which may be issued pursuant to the exercise of the Over-allotment Option.

No part of the share or loan capital of the Company is listed or dealt in on any other stock exchange. At present, the Company is not seeking or proposing to seek listing or permission to deal in any other stock exchange. All the Shares will be registered on the Hong Kong branch register of members of the Company in order to enable them to be traded on the Stock Exchange.

## **PROFESSIONAL TAX ADVICE RECOMMENDED**

If you are unsure about the taxation implications of subscribing for the Shares, or about purchasing, holding, disposing of or dealing in them, you should consult an expert.

The Company, the Vendor, the Sponsor, the Lead Manager, the Underwriters, their respective directors, agents or advisers and any other person involved in the Placing do not accept any responsibility for any tax effects on, or liability of, any person resulting from subscribing for, or purchasing, holding or disposing of, or dealing in or the exercise of any right in relation to the Shares.

## **STAMP DUTY**

Dealings in Shares registered on the Company's branch register of members maintained in Hong Kong will be subject to Hong Kong stamp duty.

## **INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING**

### **SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

If the Stock Exchange grants the listing of, and permission to deal in, the Shares on GEM and the Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or on any other date which HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

Investors should seek the advice of their stockbrokers or other professional advisers for details of those settlement arrangements as such arrangements will affect their rights and interests.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

### **STRUCTURE OF THE PLACING**

Details of the structure of the Placing, including conditions, are set out under the section headed “Structure of the Placing” in this prospectus.

# DIRECTORS AND PARTIES INVOLVED IN THE PLACING

## DIRECTORS

Name	Address	Nationality
<i>Executive Directors:</i>		
Mr. Siu Luen Fat	1st and 2nd Floors Block 22, Nice Villas 40E Hang Tau Road Sheung Shui New Territories Hong Kong	Chinese
Mr. Siu Kin Fat	Flat B, 10th Floor Block One Beverly Villas 16 La Salle Road Kowloon Hong Kong	Chinese
Mr. Siu Kuen Fat	Flat H, 5th Floor, Block 16 Laguna City Kwun Tong Kowloon Hong Kong	Chinese
<i>Non-executive Director:</i>		
Mr. Hung Kam Po	113 Hang Tau Village Sheung Shui New Territories Hong Kong	Chinese
<i>Independent non-executive Directors:</i>		
Ms. Chiu Kam Hing, Kathy	Flat 2804, Tower B Queen's Garden 9 Old Peak Road Hong Kong	Chinese
Dr. Cheung Wai Bun, Charles	A2, 6th Floor 43 Stubbs Road Hong Kong	Chinese
Mr. Kan Ching Duen	Flat B, 5th Floor, Block 6 Palm Mansions Whampoa Garden Kowloon Hong Kong	Chinese

## DIRECTORS AND PARTIES INVOLVED IN THE PLACING

<b>Members of the audit committee</b>	Ms. Chiu Kam Hing, Kathy (chairperson) Dr. Cheung Wai Bun, Charles Mr. Kan Ching Duen
<b>Sponsor</b>	Kim Eng Capital (Hong Kong) Limited Room 1901, Bank of America Tower 12 Harcourt Road Central Hong Kong
<b>Lead Manager</b>	Shenyin Wanguo Capital (H.K.) Limited 28th Floor, Citibank Tower Citibank Plaza 3 Garden Road Central Hong Kong
<b>Underwriters</b>	Shenyin Wanguo Capital (H.K.) Limited 28th Floor, Citibank Tower Citibank Plaza 3 Garden Road Central Hong Kong  Taiwan Concord Capital Securities (Hong Kong) Limited Rooms 3005-6, The Center 99 Queen's Road Central Hong Kong  CSC Securities (HK) Limited 28th Floor, Cosco Tower Grand Millennium Plaza 183 Queen's Road Central Hong Kong  Grand Cathay Securities (Hong Kong) Limited Suite 1120, 11th Floor Two Pacific Place 88 Queensway Admiralty Hong Kong  Phoenix Capital Securities Limited Room 3203-04, 32nd Floor Edinburgh Tower The Landmark 15 Queen's Road Central Hong Kong

## DIRECTORS AND PARTIES INVOLVED IN THE PLACING

### **Legal advisers to the Company**

*As to Hong Kong law:*

Sidley Austin Brown & Wood  
49th Floor, Bank of China Tower  
1 Garden Road  
Central  
Hong Kong

Law Offices of Y.S. Lai  
20th Floor, Winbase Centre  
208 Queen's Road Central  
Hong Kong

*As to the Cayman Islands law:*

Conyers Dill & Pearman, Cayman  
Century Yard  
Cricket Square  
Hutchins Drive  
George Town  
Grand Cayman  
British West Indies

### **Legal advisers to the Sponsor, the Lead Manager and the Underwriters**

Iu, Lai & Li  
20th Floor, Gloucester Tower  
The Landmark  
Central  
Hong Kong

### **Auditors and reporting accountants**

Ernst & Young  
15th Floor, Hutchison House  
10 Harcourt Road  
Central  
Hong Kong

### **Property valuers**

Vigers Hong Kong Limited  
1607-12 Miramar Tower  
132 Nathan Road  
Tsimshatsui  
Kowloon  
Hong Kong

## CORPORATE INFORMATION

<b>Registered office</b>	Century Yard Cricket Square Hutchins Drive P.O. Box 2681 GT George Town Grand Cayman British West Indies
<b>Head office and principal place of business in Hong Kong</b>	7th Floor, Cheong Tai Factory Building 16 Tai Yau Street San Po Kong Kowloon Hong Kong
<b>Company secretary</b>	Ho Siu Man, Simon <i>FCCA AHKSA</i>
<b>Qualified accountant</b>	Ho Siu Man, Simon <i>FCCA AHKSA</i>
<b>Compliance officer</b>	Mr. Siu Luen Fat
<b>Authorised representatives (for the purpose of the GEM Listing Rules) and authorised persons (to accept service of process and notice under Part XI of the Companies Ordinance)</b>	Mr. Siu Luen Fat Mr. Siu Kin Fat
<b>Principal banker</b>	The Hong Kong and Chinese Bank 231-233 Lai Chi Kok Road Kowloon Hong Kong
<b>Principal share registrar and transfer office</b>	Bank of Bermuda (Cayman) Limited 36C Bermuda House British American Centre Dr. Roy's Drive George Town Grand Cayman Cayman Islands British West Indies
<b>Hong Kong branch share registrar and transfer office</b>	Tengis Limited 4th Floor, Hutchison House 10 Harcourt Road Central Hong Kong

# INDUSTRY OVERVIEW

*Certain information presented in this section and identified as having been extracted from publicly available documents has not been independently verified by the Company, the Directors, the Sponsor or any of their respective advisors or affiliates in connection with the Placing.*

## FILM INDUSTRY IN HONG KONG

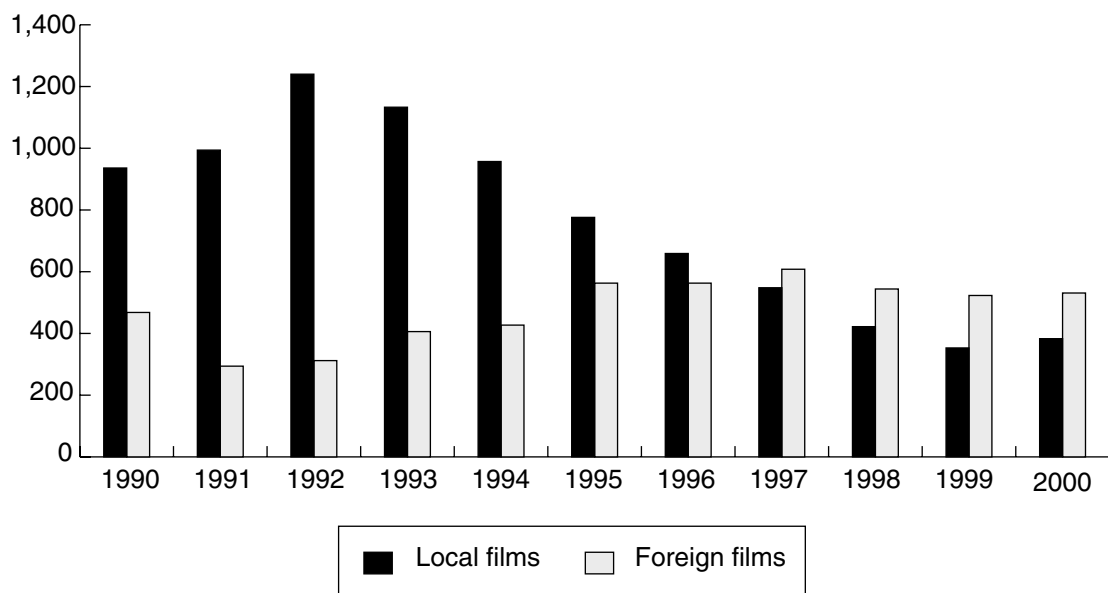
### As production centre

The film industry in Hong Kong is one of the largest and most dynamic in the world. The first film was brought to Hong Kong by the movie founder, the Lumiere brothers, in 1896 and the first local film, named “莊子試妻”, was produced in 1913. Since then, the Hong Kong film industry is continuously evolving, from silent to surround sound, from black and white to colour, from local to international. The culture of production and norms for Hong Kong film industry, which was established during the 1960s and 1970s, is the emphasis on short production schedules, the opportunistic use of locations, and the establishment of a distinctive Hong Kong genre and aesthetic that is associated with action and martial arts.

After the boom in the early 1990s, the Hong Kong film industry experienced a difficult time, with a precipitous decline in output and investment in the second half of the 1990s, especially after the Asian economic crisis. The brutal downturn in the Hong Kong film industry caused the number of films released locally and their total box office revenues to slide as much as 70% compared to the booming years.

### Box Office, 1990-2000

HK\$' million



Source: MPIA, Census and Statistics Department

## INDUSTRY OVERVIEW

Currently, the Hong Kong film industry, with the support of the Hong Kong government and the continuing recovery in the region, is undergoing a resurgence. Moreover, the boom in Asian cable and satellite channels over the last few years has provided a ready market for the film producers within the region. The increase in output reflected the upbeat mood in the local market as well as very strong international interests in Hong Kong films. In 2000, Hong Kong ranked as the fourth largest film producing economy, behind India, the US and Japan. In terms of per capita production, Hong Kong is at the top of the world.

Moreover, Hong Kong films, as well as many Hong Kong directors and actors, have gained increasing recognition from the international film industry, including winning major prizes in international film festivals. Peter Pau and Tim Yip won the Oscars for cinematography and art direction respectively through the film *Crouching Tiger, Hidden Dragon*, which achieved raving critics and unprecedented box office success in the US market.

The film industry in Hong Kong is represented by one of the industry associations, MPIA. MPIA is a non-government private organization in Hong Kong responsible for registration of copyright of films produced by its members in Hong Kong and maintained a database of copyrights of the relevant films which are accessible by members.

### **MPIA**

MPIA is mainly focused on the development and advancement of Hong Kong motion pictures industry.

On 31st January, 2002, MPIA launched an online copyright database. The online copyright database of MPIA is the first online film copyright database in Hong Kong which is designed to provide services to both the public and the law enforcement authorities. The database has been made available to Customs and Excise Department of the Hong Kong government.

According to MPIA, with the assistant of the online platform, both local and overseas copyright enforcement authorities, during their course of investigation, can obtain important copyright information immediately through Internet.

On the other hand, MPIA stated the online copyright database can also be used to promote local film industry. According to MPIA, with information of more than 3000 local films in Hong Kong, covering from 1950's to recent films releases, on the database, people from local or overseas such as researchers, students, film distributors, buyers or plain film enthusiasts can gain access to accurate information such as identity of copyright owner, cast and crew, box office statistics, film release date and film industry correspondence list.

Registration with MPIA is not compulsory for players in the film production industry and that registration with MPIA may not, in any event, assist film producers nor is beneficial to film producers in Hong Kong. MPIA do not have any statutory authority to enforce copyright of movies owned by its members.

### **As distribution hub**

Most local film companies deal directly with cinema chains for local screenings on a revenue-sharing basis. Rights will then be sold to distribution companies in other forms of release, including video/laser rental and sales, and television broadcasting.

According to an article issued by the Hong Kong Trade Development Council in January 2002, Hong Kong is among the world's largest film exporters, capturing a significant share in the film markets of South East Asia, Taiwan and South Korea. Most Hong Kong films are intended for both local and overseas screening, while some are produced exclusively for the overseas markets. Hong Kong's film industry as a whole is reliant on overseas revenues, given the limited size of the domestic market.

According to MPIA, more than half of the income of a locally produced film is normally derived from overseas sales, of which Asia accounts for approximately 70%. Films are exported in various forms, ranging from the tradition mediums of theatrical release, video cassette (VHS), VCD and DVD to licensing to overseas broadcasters, free television operators and pay-per-view operators. Notably, there is an increase in popularity of Hong Kong films among traditional non-Chinese speaking countries following the recent international recognition of some of the Hong Kong films.

### **SUPPORT FROM GOVERNMENT**

The entrepreneurial push and creative talent of the local film industry professionals are the real drivers behind the success of film production in Hong Kong. To nurture this entrepreneurship and creativity, the Hong Kong government has explored dynamic ways to help the growth of the Hong Kong film industry.

### **Film Services Office**

The Film Services Office ("FSO") was established in April 1998 under the Television and Entertainment Licensing Authority to examine regulations in the Hong Kong film industry, to promote the development of the industry and to help the industry to overcome some fundamental difficulties in film production. The vision of FSO is to maintain Hong Kong's status as a major film production centre and to enhance Hong Kong's position as a film trading and service hub in the Asia-Pacific region.

To facilitate film production and in particular location shooting in Hong Kong, FSO provided assistance to 26 local film production companies in 115 applications for location shooting and to six overseas film production companies in 54 applications for location shooting in 2001. FSO also made 221 location suggestions and provided assistance to location shooting in 90 occasions.

## **Film Development Fund**

The Film Development Fund of HK\$100 million was established in April 1999 to support projects which are beneficial to the healthy and long term development of the Hong Kong film industry. The Film Development Fund aims to enhance the professional and technological capabilities of the Hong Kong film industry; to improve professional skills of the industry's workforce; to encourage the production of more creative and diversified films; to facilitate the industry in the mastering and application of advanced technology; to stimulate further improvement in the quality of local film production and services; and to improve the production and operation environment of the industry.

Since its operation in April 1999, the Film Development Fund had received 96 applications and approved 35 applications with total funding of approximately HK\$31 million as at 15th December, 2001.

## **Hong Kong International Film and TV Market ("Filmart")**

The Hong Kong Trade Development Council has been organising annual Filmarts since 1997. The annual event is to promote Hong Kong movies, Chinese-language films and TV programmes and to strengthen Hong Kong's lead as an international entertainment production and distribution hub. Filmart has become an annual gathering for industry players. The success on Filmart underscores its growing importance as the premier international market place for films and TV programmes.

For Filmart 2001, the three-day event attracted a total of 1190 buyers. Out of the 1190 buyers attended, 735 attendants were from 42 countries and regions, including the PRC, Singapore, Taiwan, Japan, Thailand, the US, Korea, Indonesia, France and the United Kingdom.

## **Anti-piracy**

The Customs and Excise Department defends the interests of legitimate intellectual property rights owners and traders. The department enforces the Copyright Ordinance, the Prevention of Copyright Piracy Ordinance and is responsible for the investigation and prosecution of copyright offences relating to cinematographic films. In June 2001, the Customs and Excise Department established a 157-strong special task force to combat copyright piracy activities.

For the eleven months ended 30th November, 2001, the Customs and Excise Department seized approximately 2.9 million VCD valued at approximately HK\$45 million and approximately 0.4 million MD valued at approximately HK\$21 million.

The effectiveness of the enforcement of the Custom and Excise Department is derived from the strength of the Hong Kong legislative framework. Copyright offences are incorporated into the Organized and Serious Crimes Ordinance for the purpose of attracting heavier penalties. The

new law also provides anti-piracy enforcement officers of the Custom and Excise Department with special investigative powers, including the investigation of financial assets of suspects for the eventual purpose of confiscating the pirate's proceeds. Moreover, new amendments to the copyright law have been enacted, making unauthorised recordings in cinemas an offence.

### **Entertainment Special Effects Ordinance**

Previously, the use of dangerous goods for producing special effects in films was governed by the Dangerous Goods Ordinance and the Gas Safety Ordinance. Since the two Ordinances were not specifically designed to meet the operational needs of the film and entertainment industry and were enforced by five different departments, the previous regulatory system was time-consuming and not user-friendly and the industry encountered considerable difficulties in complying with the relevant requirements. In view of this, the Entertainment Special Effects Ordinance, which come into effect on 16th March, 2001, is introduced to strike a balance between meeting the operational needs of the film industry and protecting public safety.

Under the new regulatory system, a one-stop licensing authority, the Entertainment Special Effects Licensing Authority, is established to regulate the use of special effects materials in the production of entertainment special effects, making the system more efficient and user-friendly. The new system not only streamlines many of the cumbersome regulatory measures and enhances efficiency in the production of films in Hong Kong, but also is expected to raise the professional expertise of local special effects operators and to promote the safe production of special effects scenes for entertainment purposes.

### **Film studio site**

Two sites in Cheung Kwan O were put out for tender to encourage infrastructural investment in film production and in advanced post-production technologies, strengthening the film production capabilities of Hong Kong and making Hong Kong a post-production service centre in Asia. The tender was assessed on the basis of several factors including the premium offered, the business plan as well as the likely contributions the development can bring to the film industry in Hong Kong.

The first site, which was awarded to Hong Kong Movie City Company Limited, an independent third party, in August 1998, occupies an area of 29,800 square metres and can be developed to a gross floor area of 59,600 square metres, while the second site, which was awarded to Hong Kong Digital Movie City Company Limited, an independent third party, in August 2000, occupies an area of 14,600 square metres and can be developed to a gross floor area of 29,200 square metres. Both consortia have pledged to build state-of-the-art film studio with advanced post-production facilities.

## TECHNOLOGY DEVELOPMENT IN FILM INDUSTRY

With digital revolution in filmmaking, directors from Hollywood to the East End are embracing the new digital technologies. The biggest Hollywood endorsement for digital film is *Star Wars: Episode I - The Phantom Menace* which has used digital technologies extensively for special effects. The next one in the series, *Star Wars: Episode II*, is fully digitised. There are so many benefits to the new technologies that it is an unstoppable trend. The number of digital films made is increasing everyday and mainstream directors are digitising too.

### Production

The production of digital film is relatively cost-effective and flexible than that of traditional 35mm film.

Digital cameras are relatively small and lightweight as compared to 35mm cameras, enabling shooting at innovative position and where there is limited space. Moreover, digital cameras usually come with an image stabilisation device, allowing them to move around smoothly. Thus, panning and tracking in digital filmmaking can be done without expensive dolly tracks or Steadicams (which are specialised stabilisation rigs) in 35mm filmmaking.

Digital movie also overcomes the problems associated with the 35mm negative. A roll of 35mm negative is generally sufficient for shooting of approximately four to five minutes. The frequent need of changing negatives in 35mm film is time-consuming and makes shooting unsuitable under certain circumstances such as underwater and for documentary purposes. Moreover, extreme weather will affect the stabilities of the chemicals on 35mm negative, hence, affecting the quality of the film shot in extreme conditions. As compared to 35mm movies, digital movies using digital tapes can usually shoot films for 30 to 270 minutes and offer greater flexibility to directors in location and environment selection, and the cost of hiring an assistant for changing negatives can be saved.

One of the major comparative advantages of digital film is in re-taking. For conventional 35mm filmmaking, re-takes are expensive, time-consuming and sometime impossible. Before deciding whether re-takes are needed, the negatives have to be developed to pictures. To re-take, the original background has to be set up again, which may be impossible for an explosion shoot or at restricted locations. Compared to 35mm filmmaking, re-takes are easy and cost almost nothing to digital film pictures are immediately available and the same digital tape can be overwritten time and time again until satisfactory pictures have been made.

In addition, digital camera reproduces a broader range of colours faithfully and films with a higher resolution. Although 35mm film is usually with greater contrast, strong light is required to produce such better quality. In contrast, digital film delivers satisfactory pictures under weak lighting, without the light technician.

## **Post-production and special effects**

Computer editing and digital special effects are becoming the norm in the film industry as computerised procedures are becoming simpler and easier. For example, virtual setting means shooting in front of a blue screen background and keying in digitised photos or background location in post-production only.

Lab processing and telecine transfer from 35mm roll into digital tape are required for computer editing and special effects of 35mm film which costs extra. As compared to 35mm film, digital film which is in digital format and ready for computer editing and special effects is simpler and more cost efficient.

Moreover, the processes of splicing reels, developing negatives and processing opticals of traditional 35mm films are dirty, toxic and expensive while the digital processes are clean, easy and simple to learn. Film editing in the past needed proper celluloid cutting and editing deck or a highly specialised proprietary editing software which costs a fortune.

## **Distribution and storage**

Screening of digital film in cinema is easy and cost-saving. The print of an average traditional 35mm format film usually comprises of approximately 8,000 feet of film and will be divided into more than 5 “boxes”. The heavily weighted and bulky “boxes” are difficult to distribute, increasing the transporting expenses. As compared to traditional 35mm film, each print of a digital film approximates the size of a video tape and is lightweight, and thus, convenient and cheap to distribute especially to overseas.

For storage, the prints of digital film are convenient to store while the bulk size of 35mm film occupy much more storing spaces. Moreover, the quality of digital film remained unchanged as time passes while the 35mm film stock fades with age.

## **Drawback**

One major drawback of digital film is that there are only limited number of cinemas equipped to screen films in DV format, most of which are located in Japan. Thus, digital films aiming for general release have to be converted into 35mm film at extra cost, and at the cost of a loss in picture quality in most cases.

In addition, even though the advance in technologies allows digital film to challenge 35mm film for quality, digital film still cannot deliver the kind of contrast and depth achieved in conventional 35mm film.

## FILM CENSORSHIP RULES

According to the Film Censorship Ordinance (Chapter 392 of the Laws of Hong Kong) in 1988, films intended for public exhibition in Hong Kong are subject to the approval by the Film Censorship Authority. In considering whether the film portrays, depicts or treats, cruelty, torture, violence, crime, horror, disability, sexuality or indecent or offensive language or behaviour, films are classified under the following 3-tier classification system:

Category I	suitable for all age
Category II subdivided into:	
Category IIA	not suitable for children
Category IIB	not suitable for young persons and children
Category III	only for persons who have attained the age of 18 years

In 2000, the Film Censorship Authority has classified 1,296 films.

To ensure that the film classification standards are in line with the community standards, the Hong Kong government conducts regular surveys of community views and consults the statutory panel of advisers. The panel comprises more than 250 members drawn from a wide cross-section of the community, giving their views to the film censors on the appropriate classification of a film.

## HISTORY AND DEVELOPMENT

The Group was founded by Mr. Siu, Mr. Siu Kin Fat and Mr. Siu Kuen Fat in Hong Kong on 16th May, 1997 when Best Faith was incorporated. Prior to founding the Group in 1997, Mr. Siu, Mr. Siu Kin Fat and Mr. Siu Kuen Fat were engaged in various business sectors in Hong Kong. In 1996, in view of the potential development of the film industry, Mr. Siu attended a diploma course in film making organised by The School of Continuing Studies of the Chinese University of Hong Kong and since then began to carry out a feasibility study on film production and film distribution business in Hong Kong.

At an early development stage of the Group from July 1997 to January 1999, the Group mainly engaged in the production of movies using 35mm filming technology equipment, a traditional method for the production of movies. The first movie produced by the Group was released to the market in June 1998. On the other hand, the Group has been engaged in the sub-licensing of film rights of certain movies purchased from overseas through independent third parties to distributors in Hong Kong since May 2000. For the same period, the Group has maintained its own production team comprising of producers, directors, script writers, art directors, chief coordinators and post-production organising team. The Group has licensed the copyright/film rights of its movies to distributors in Hong Kong and overseas and screening-rights of the Group's movies to a cinema in Hong Kong.

For the same period, the Group produced a total of seven movies using 35mm filming equipment and distributed its copyright/film rights mainly to overseas via independent distributors and a cinema operator in Hong Kong.

On 14th January, 1998, B & S Films Production, a company whose shares were owned as to approximately 33.4%, 33.3% and 33.3% by Mr. Siu, Mr. Siu Kin Fat and Mr. Siu Kuen Fat respectively, was incorporated in Hong Kong for production of movies and has subsequently been reorganised as a wholly owned subsidiary of the Company following the Reorganisation.

On 30th September, 1998, B & S Films Distribution, a company whose shares were owned as to approximately 33.4%, 33.3% and 33.3% respectively by Mr. Siu, Mr. Siu Kin Fat and Mr. Siu Kuen Fat, was incorporated in Hong Kong for distribution of copyright/film rights of the Group's movies and has subsequently been reorganised as a wholly owned subsidiary of the Company following the Reorganisation. Following the incorporation of B & S Films Distribution, the Group has set up its own film distribution department and began to distribute the copyright/film rights of its movies to overseas via independent distributors and cinema operator in Hong Kong. There were no differences in the business nature and operation between B & S Films Distribution and Best Faith and the Directors consider that the incorporation of more than one company for the purpose of carrying on business is a common commercial practice. The copyright/film rights of movies distributed by the Group normally include licenses to broadcast the Group's movies for a certain period of time in various medium such as television, cinemas, video tapes, DVD and VCD.

In January 1999, the Group began to carry out a feasibility study on the production of movies in DV format, which has, at the relevant time, been used in the US for over 4 years. After a period of about six months of research, development, testing and initial production, the results of the feasibility study were promising and, the Group released its first DV format movie, namely “*Our Last Day*” (第100日), in July 1999.

Screening of DV format movies in cinema requires a different set of equipment as compared to the screening of traditional 35mm movies. At the time of the release of “*Our Last Day*” (第100日), there was only one cinema in Hong Kong which has installed such type of equipment for screening of DV format movies. The Group’s strategy is to distribute the copyright/film rights of its movies mainly to overseas including North America, Australia and South East Asia. Since the release of the first DV format movie by the Group and for the period from July 1999 to January 2000, the Group has produced and released a total of 29 DV format movies, including “*Our Last Day*” (第100日), comprised of various types of contents.

To cope with the mass production of DV format movies and to control the Group’s production cost in an effective manner, during the year 1999, the Group re-allocated its resources to focus on the management and supervision duties and the post-production works of movies to be produced by the Group. As a result of the re-allocation, the Group’s own production team comprised mainly of producers, script writers, chief coordinators and certain post-production team while personnel involved in the film shooting process such as directors, art directors and light controllers were employed by the Group on a project by project basis.

After the release of the first 29 DV format movies by the Group as stated above, in order to enhance the quality of DV format movies to be produced by the Group in the future, in February 2000, the Group decided to undertake a further feasibility study, the main purpose of which was to obtain a thorough understanding of the trends and markets of DV format films, reviewed the sales performance of the Group’s DV format movies in the past and to set out future directions for the development of the Group’s business. Given the positive results of the feasibility study and in view of the potential growth of demand of movies produced by the Group especially from overseas, the Group continued to produce DV format movies comprised various types of contents which the Directors considered, are complemented to market trends and demands.

From October 2000 onward, the Group began the production of movies in series. As at the Latest Practicable Date, the Group has completed the production of two sets of prison and eight sets of ghost story movie series respectively.

In addition to the engagement of production personnel involved in film shooting process on a project by project basis, the Group, following the industry trend, also began to outsource the production of movies to independent movies production companies on a project by project basis. On 25th October, 2000, the Group entered into three film production agreements with East Entertainment Limited, an independent third party and a movie production company, to engage Mr. Nam Yin (南燕(林嶺南)), an experienced movie producer, as the film producer for 19 completed movies including the “*Troublesome Nights 8*” (陰陽路八之棺材仔). Through these

## HISTORY AND ACTIVE BUSINESS PURSUITS

agreements, the Group continues to work with Mr. Nam Yin through East Entertainment Limited to produce more movies for the Group. East Entertainment Limited is an independent third party, not connected with the Director, chief executive, management shareholders or substantial shareholder of the Company or its subsidiaries and their respective associates.

The Group mainly co-operated with the relevant independent film producers and production crews for pre-production preparation, shooting and certain post-production process on a project by project basis while it focused on the selection of the type of movies to be produced, overall control of the movies undertaken to be produced including the formulation of strategies, selection of actors/actresses, quality assurance, and ensuring timely completion of the production of those movies.

During the year 2001, the Group has continued to carry on its business of production of movies and distribution of copyright/film rights of the Group's movies and sales of video and VCDs of the movies produced by the Group and 18 movies had been produced.

On 2nd January, 2002, Fleur Group was incorporated in BVI for the holding of copyright of the movies produced by the Group and has subsequently been reorganised as a wholly owned subsidiary of the Company following the Reorganisation.

The copyright of the movies produced by the Group is currently being held by Best Faith and will be held by Fleur Group after the Reorganisation.

On 22nd July, 2002, the Group completed the Reorganisation in preparation for the listing of the Shares on GEM. Pursuant to the Reorganisation, the Company became the holding company of the Group. Details of the Reorganisation are set out in the paragraph headed "Corporate Reorganisation" in Appendix IV to this prospectus.

### STATEMENT OF ACTIVE BUSINESS PURSUITS

The following is a statement of active business pursuits of the Group for each of the two years ended 30th June, 2001 and for the period from 1st July, 2001 to the Latest Practicable Date:

#### **In respect of the year ended 30th June, 2000**

##### *Business development*

- Commencement of the production of DV format movies.
- Focused on the development of overseas markets including North America and South East Asia for distribution of film rights of the Group's movies.
- Liaison with a cinema in Hong Kong, namely New Imperial Cinema, for the investment and installation of screening equipment for DV format movies in the relevant cinema.

## HISTORY AND ACTIVE BUSINESS PURSUITS

- Identification of suitable business partners and commenced co-operations with various parties including actors/actresses, film producers, film directors and film post-production companies for the development of the Group's business. Such arrangement was carried out for the production of movies for the year ended 30th June, 2000.

### *Distribution and marketing*

- The Directors of the Group attended various film related exhibitions and tradeshows held in Hong Kong and in overseas including:
  - MIFED99- the autumn film market held in Milan, Italy in October 1999; and
  - Hong Kong International Film and TV Market-Filmart (香港國際影視展) organised by the Hong Kong Trade Development Council and held in Hong Kong in June 2000.
- Placed advertisements to promote the Group's movies in film related magazines.
- Paid regular visits to the Group's customers for the promotion of the Group's products.
- The Group established relationships with a number of customers in several overseas countries for the distribution of the Group's products.

### *Procurement of equipment*

The Group has purchased equipment for the production of DV format movies and such equipment included various DV format cameras, sound recording equipment, DV editing equipment and other computer equipment.

### *Significant events*

- The Group has released the theatrical rights of the movies produced by the Group to a cinema in Hong Kong which has installed the equipment for screening of DV format movies.
- A total of 29 DV format movies were released and distributed to overseas and/or broadcasted in a cinema in Hong Kong.
- One 35mm format movie was released.
- The Group has purchased 700 movies for sub-licensing through independent third parties in Hong Kong which have not been released in any cinema in Hong Kong.

## *Location of business*

The Group's movie production base is located in Hong Kong and the business of the Group was substantially carried out in Hong Kong.

## *Financing*

The Group's business was mainly financed by revenue generated from its operations, shareholders' funds and advances from a Director.

## **In respect of the year ended 30th June, 2001**

### *Business development*

- Continued to develop the business for the production of DV format movies.
- Continued to co-operate with independent film producers, film directors and production crews for the production of the Group's movies.

### *Distribution and marketing*

- The Directors of the Group attended various film related exhibitions and tradeshows held in Hong Kong and overseas including:
  - MIFED'2000 — the autumn film market held in Milan, Italy in October 2000; and
  - Hong Kong International Film and TV Market — Filmart (香港國際影視展) organized by the Hong Kong Trade Development Council and held in Hong Kong in June 2001.
- Paid regular visits to the Group's customers in order to promote the Group's products.
- The Group continued to establish relationships with customers in overseas countries for the distribution of the Group's movies.

### *Procurement of equipment*

The Group has continued to purchase equipment for the production of DV format movies and such equipment included various DV cameras using latest technology.

### *Significant events*

- A total of 9 DV format movies were released and distributed to overseas and/or broadcasted in a cinema in Hong Kong.
- One 35mm format movie was released.

## HISTORY AND ACTIVE BUSINESS PURSUITS

### *Location of business*

The production base for the production of the Group's movies is located in Hong Kong and the businesses of the Group were substantially carried out in Hong Kong.

### *Financing*

The Group's business was mainly financed by revenue generated from its operations, shareholders' funds and advances from a Director.

### **In respect of the period from 1st July, 2001 to the Latest Practicable Date**

#### *Business development*

- Continued for the development on the application of DV filming techniques.

#### *Distribution and marketing*

- The Directors of the Group continued to attend various film related exhibitions and tradeshows held in Hong Kong and overseas including:
  - MIFED'2001 — the autumn film market held in Milan, Italy in October 2001; and
  - Hong Kong International Film and TV Market — Filmart (香港國際影視展) organized by the Hong Kong Trade Development Council and held in Hong Kong in June 2002.
- Continue to pay regular visits to the Group's customers in order to promote the Group's products.
- The Group continued to establish relationships with certain customers in certain overseas countries for the distribution of the Group's products.

#### *Significant events*

- A total of 12 DV format movies were released and distributed to overseas and/or broadcasted in a cinema in Hong Kong.

### *Location of business*

The production base for the production of the Group's movies is located in Hong Kong and the businesses of the Group were substantially carried out in Hong Kong.

## HISTORY AND ACTIVE BUSINESS PURSUITS

### *Financing*

The Group's business was mainly financed by revenue generated from its operations, shareholders' funds and advances from a Director.

### **Human resources deployment**

The number of the Group's employees (including the executive Directors) during the Track Record Period are set out in the following table:

	<b>As at 30th June, 2000</b>	<b>As at 30th June, 2001</b>	<b>As at the Latest Practicable Date</b>
Management	3	3	3
Distribution	2	2	2
Production	8	7	4
Finance and administration	2	2	3
<b>Total</b>	<b>15</b>	<b>14</b>	<b>12</b>



## SHAREHOLDING STRUCTURE OF THE GROUP

2. Dragon Master is equally owned by Ms. Man Ka Bo and Ms. Lo Man Ling, both of whom are members of the senior management of the Group. Dragon Master, Ms. Man Ka Bo and Ms. Lo Man Ling are regarded as the initial management shareholders (as defined in the GEM Listing Rules). Each of Ms. Man Ka Bo and Ms. Lo Man Ling has undertaken to the Company, the Stock Exchange, the Sponsor and the Underwriters that she will not dispose of (or enter into any agreement to dispose of) her direct or indirect interest in the issued share capital of Dragon Master during the 12-Month Lock-up Period. Dragon Master has undertaken to the Company, the Stock Exchange, the Sponsor and the Underwriters that it will not dispose of (or entered into any agreement to dispose of) its direct or indirect interest in the issued share capital of the Company during the 12-Month Lock-up Period.
  
3. Eagle Creek is beneficially owned as to approximately 48.2%, 22.2% and 29.6% by Ms. Ho Ying Tai, Mr. Ho Kai Ying and Ms. Yung Mei Ling respectively who are independent of and not connected with any of the Directors, chief executive of the Company, the Initial Management Shareholders, the Substantial Shareholders or any of their respective associates. None of them individually holds more than five per cent. of the issued share capital of the Company immediately after the Placing and the Capitalisation Issue.
  
4. The beneficial shareholders of Baserich are summarised as follows:

<b>Name of shareholders of Baserich</b>	<b>Approximate percentage of shareholding</b>
	%
Mr. Lee Tat Chiu	43.9
Mr. Hung, non-executive Director	34.2
Mr. Lee Tat Keung	14.6
Mr. Poon King Hei	7.3
	100.0

Save for Mr. Hung, an Initial Management Shareholder, the shareholders of Baserich are (i) independent third parties not connected with any of the Directors, chief executive of the Company, the Initial Management Shareholders or the Substantial Shareholders or any of their respective associates and none of them has been involved in the management or operation of the Group and (ii) independent of each other. Mr. Lee Tat Chiu, by reason of his deemed interest in Baserich, is a Significant Shareholder.

Each of the shareholders of Baserich has undertaken to the Stock Exchange, the Company, the Sponsor and the Underwriters that he will not dispose of (or enter into any agreement to dispose of) his direct or indirect interest in the issued share capital of Baserich during the 12-Month Lock-up Period. The undertaking of each of Mr. Lee Tat Chiu, Mr. Lee Tat Keung and Mr. Poon King Hei is made voluntarily. Baserich has undertaken to the Company, the Stock Exchange, the Sponsor and the Underwriters that it will not dispose of (or enter into any agreement to dispose of) its direct or indirect interest in the issued share capital of the Company during the 12-Month Lock-up Period.

# SHAREHOLDING STRUCTURE OF THE GROUP

5. The beneficial shareholders of Amerose are summarised as follows:

<b>Name of shareholders of Amerose</b>	<b>Approximate percentage of shareholding %</b>
Mr. Cheng Wing Ming	43.2
Ms. Siu Mei Shuen	18.5
Mr. Yim Kwok Leung, Kenneth	15.4
Mr. Chan Yip Fai	7.4
Mr. Or Tak Fai	6.2
Ms. Siu Yin Ping	6.2
Mr. Tsang Kok Ping	3.1
	100.0

The shareholders of Amerose are (i) independent third parties not connected with any of the Directors, chief executive of the Company, the Initial Management Shareholders or the Substantial Shareholders or any of their respective associates and none of them has been involved in the management or operation of the Group and their acquisition of the interest in the Company was not funded directly or indirectly by any connected person (as defined in the GEM Listing Rules) of the Group (save for Ms. Siu Mei Shuen who is the sister of Mr. Siu and Ms. Siu Yin Ping who is the wife of Mr. Cheng Wing Ming); and (ii) independent of each other (save for Ms. Siu Yin Ping who is the wife of Mr. Cheng Wing Ming). Each of the shareholders of Amerose has undertaken to the Stock Exchange, the Company, the Sponsor and the Underwriters and each of them that he/she will not dispose of (or enter into any agreement to dispose of) his/her direct or indirect interest in the issued share capital of Amerose during the 6-Month Lock-up Period. The undertaking of each of Ms. Siu Mei Shuen, Mr. Yim Kwok Leung, Kenneth, Mr. Chan Yip Fat, Mr. Or Tak Fai, Ms. Siu Yin Ping and Mr. Tsang Kok Ping is made voluntarily. Amerose has undertaken to the Company, the Stock Exchange, the Sponsor and the Underwriters and each of them that it will not dispose of (or entered into any agreement to dispose of) its direct or indirect interest in the issued share capital of the Company during the 6-Month Lock-up Period.

Ms. Siu Mei Shuen is the sister of Mr. Siu and is independent of Ms. Siu Yin Ping.

**DESCRIPTION OF BUSINESS**

The Group is principally engaged in the business of (a) production of movies; (b) distribution of copyright/film rights in respect of movies produced by the Group to overseas countries and in Hong Kong; and (c) sub-licensing of film rights in respect of movies procured from overseas movies producers in Hong Kong.

**Production and distribution of films**

The Group is principally engaged in production of Chinese language movies in Hong Kong and distribution of copyright/film rights in respect of (i) Chinese language movies produced by the Group to overseas countries and in Hong Kong; and (ii) sub-licensing of film rights in respect of movies procured from overseas movie producers in Hong Kong. The Group's movies were produced by using (a) 35mm filming technique, a traditional way of producing movies in the film production industry; and (b) digital video filming technique, a way of producing movies which emerged in the film production industry in the past few years. The Directors believe that the Group is one of the prime movers for the production of movies using DV equipment in Hong Kong.

The Directors believe that the technology adopted by the Group in the production of movies using DV equipment reduces the cost of production by more than 50% per movie as a result of less production equipment being used and reduction of film processing cost and hence increases the efficiency and effectiveness of film production by the Group. The Directors considered that there is no direct comparable between the production cost for 35mm format film and DV format film due to difference in casting, quality of production crew and scale of production equipment applied. However, on the basis that the above factors are similar, to the best knowledge and estimation of the Directors, as an example, the Directors estimate that for a 35mm format film with a total production cost of HK\$2.5 million, there will be a cost saving by more than HK\$1.25 million by using DV filming technique. However, production of movies using 35mm filming equipment is a traditional way of producing movies adopted by the film industry for many years and as a result, screening equipment installed in majority of the cinemas and theatres in Hong Kong accommodate for the screening of 35mm movies.

The Directors consider that, at present, the primary market for movies produced in 35mm film format and DV format are different. Movies produced in DV format are mainly released to selected cinema which has installed with DV screening equipment for the screening of DV format movies and subsequently distributed to the market in the forms of VCD, DVD or video tape as well as screening in pay TV channels. While movies produced by using 35mm filming equipment are initially released in cinemas and subsequently released in the forms of VCD, DVD or video tape or screened in pay TV channels. The Group's strategy is to continue to engage in the production of movies using both DV equipment and 35mm filming equipment, depending on the market in which the Group targets for distribution at the time of production of the relevant movies.

The Group normally licenses the copyright/film rights of the movies produced by the Group to its distributors to produce VCD, DVD and video tape of the Group's movies.

### *Movies produced by 35mm film*

The Group commenced its business in mid-1997 and initially engaged in the production of movies in 35mm film format and distributed such movies to overseas countries and in Hong Kong. From early 1998 to January 1999, the Group has produced and distributed a total of 7 movies in 35mm film format. Since then, the Group has concentrated mainly on the production of movies using DV equipment and has engaged in the production of movies using 35mm filming equipment where necessary. In May 2002, the Group has produced and released a 35mm movie named “*The Hidden Enforcers*” (殺手狂龍).

### *Movies produced in DV format*

The Group began the production and distribution of DV format movies from January 1999 and July 1999 respectively and since then has produced and distributed over 50 DV format movies up to the Latest Practicable Date. The DV format movies produced by the Group were distributed to overseas countries including various Asian countries, North America, Australia and New Zealand and/or screened in a cinema in Hong Kong. In relation to the screening of the Group’s DV format movies in Hong Kong, the Group has an arrangement with a cinema in Hong Kong, namely New Imperial Cinema, in 1999 pursuant to which, the cinema operator has refurbished the cinema and installed relevant equipment with the capability to screen DV format movies in the cinema. Apart from this, DV screening equipment has been installed in the Hong Kong Space Museum and Kwai Tsing Theatre in Kwai Chung. The movies produced by the Group are usually released in the aforesaid cinema before being distributed to others. Copyright/film rights in respect of the Group’s movies sold by the Group to its customers usually include the right to release the Group’s movies in different video formats including VCD, DVD and video tape.

### **Sub-licensing of film right**

During the year ended 30th June, 2001 and the six months ended 31st December, 2001, the Group has been engaged in the business of sub-license of copyright/film rights (including 500 adult movies and 200 other types of movies such as comedies and horror movies) which amounted to approximately HK\$13.9 million and HK\$3.9 million respectively. The film rights of the movies were licensed from an independent third party in Hong Kong and were sub-licensed to another independent third party in Hong Kong.

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## Sales of videos and VCDs of movies produced by the Group

For the two years ended 30th June, 2001, the Group has been engaged in the sales of movies produced by the Group in the form of videos and VCDs mainly to both retailers and distributors in Hong Kong. The Group has subcontracted to certain manufacturers which were independent third parties for the production of VCDs comprised of the Group's movies. For each of the two years ended 30th June, 2001, sale of movies produced by the Group in the form of videos and VCDs amounted to approximately 12.1% and 4.4% of the total turnover of the Group respectively.

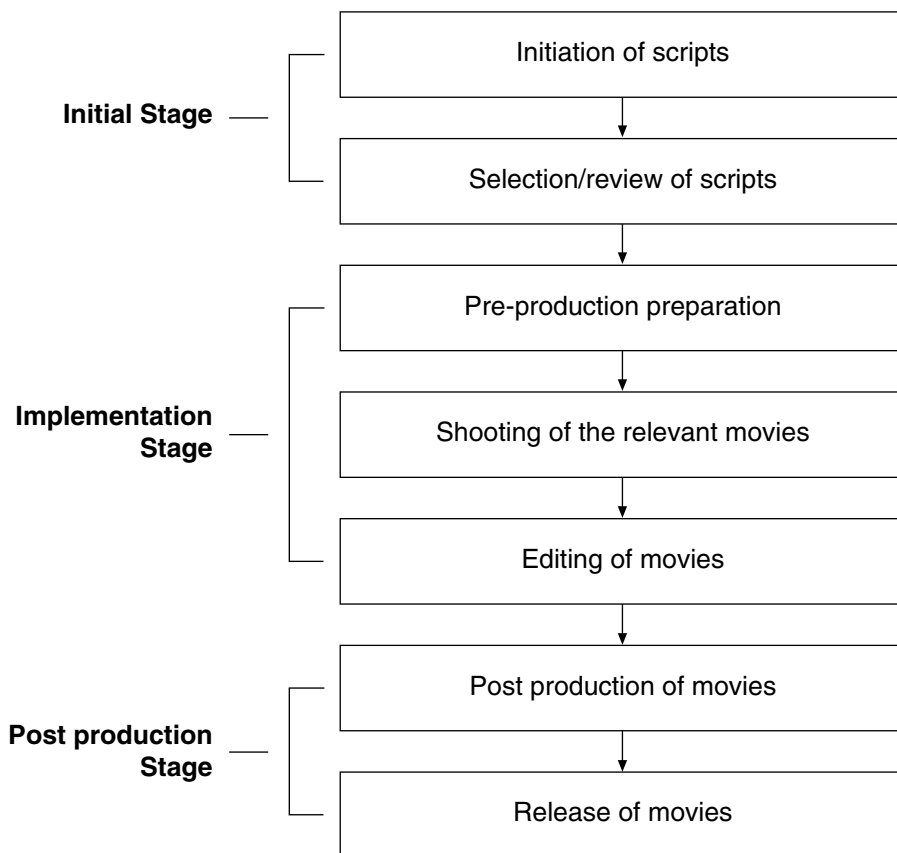
## Revenue Distribution

The breakdown of turnover of the Group into (a) distribution of copyright/film rights of movies produced by the Group and sub-distribution of film rights of movies procured by the Group; and (b) sales of videos and VCDs for the two years ended 30th June, 2001 and the six months ended 31st December, 2001 are set out below:

	<b>For the year ended 30th June,</b>				<b>For the six months</b>	
	<b>2000</b>		<b>2001</b>		<b>ended 31st</b>	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Licensing of copyright/film rights of movies produced by the Group	20,640	87.9	13,114	46.4	8,802	69.2
- 35mm format films	9,502	40.5	1,100	3.9	—	—
- DV format films	11,138	47.4	12,014	42.5	8,802	69.2
Sub-licensing of film rights	—	—	13,900	49.2	3,900	30.7
Sales of videos and VCD of movies produced by the Group	<u>2,832</u>	<u>12.1</u>	<u>1,253</u>	<u>4.4</u>	<u>9</u>	<u>0.1</u>
<b>Total</b>	<u><u>23,472</u></u>	<u><u>100.0</u></u>	<u><u>28,267</u></u>	<u><u>100.0</u></u>	<u><u>12,711</u></u>	<u><u>100.0</u></u>

**PROCESS FOR THE PRODUCTION OF MOVIES**

The Group’s movies are produced by using both DV and 35mm film equipment and technologies. The movies produced by the Group comprised a variety of categories. The Group will usually assess the trend of popularity of the movies during the process of writing up the script. The production of movies by the Group typically comprises the following steps and procedures:



**Initial stage**

*Initiation of scripts*

The production of movies initially involves the identification of concepts and drafting of scripts. The source of concepts and the draft scripts of potential movies to be produced by the Group are normally deduced from two sources including (a) where the Group initiates the theme of the movies to be produced and; (b) from time to time, where the Group receives scripts and proposals from freelance script writers and directors. The Directors will assess the market potential of certain categories of movies of the Group’s existing film library and will continue to produce a series of movies which belong to the same categories should the Directors consider that market potential exists. The Group maintains a close relationship with local film producers, cinema operators and other media operators in order to keep abreast of the latest trends and developments in the film industry.

*Review and selection of scripts*

The preliminary scripts will be reviewed in details by the Directors and senior members of the production department of the Group. When deciding whether to produce a movie based on those preliminary scripts, the Group will assess the quality of the content of the scripts, acceptability and trend of the market with respect to the proposed category of film, cost of production and intended release timetable.

**Implementation stage**

*Pre-production preparation*

When the Group decides to produce a particular movie, the Group will formulate a production plan and arrange for the engagement of production members and principal casts in either of the following ways depend on the content of movies to be produced:

(a) Line up of production crews

Engagement of (i) principal casts and; (ii) production crews involved in the film shooting process including film directors, art directors and light controllers on a project by project basis, which the Directors consider as normal industry practice in the film industry. The relevant production team for each movie to be produced is normally headed by the chief producer of the Group who is responsible for monitoring production progress. The chief producer will, in turn, report to the Directors twice a week.

(b) Formulation of production plans

Outsource the production of the Group's movies including pre-production preparation, film shooting process and engagement of cast to independent movie production companies on a project by project basis while the Group will mainly concentrate and focus on selection of the type of movies to be produced, formulation of strategy, selection of actors/actresses and performance of quality assurance of the movies to be produced.

The Group has not encountered and the Directors do not anticipate any difficulty in recruiting suitable and competent actors/actresses, production crew and/or production companies.

*Shooting of the relevant movies*

The Group will begin to produce the relevant movie in accordance with the production plan as stated above. Certain part of the production process is normally outsourced to independent third parties and the Group will cautiously take control of the relevant production cost to ensure that the film will be completed on schedule.

### *Editing of movies*

After completion of the shooting of the relevant movie, the Group will edit the recorded video tapes of the movie for the initial organisation and arrangement of the films.

### **Post production stage**

#### *Post production of movies*

In addition to the editing and arrangement of the movie, a number of processes including subtitling, color analyzing, special and sound effect incorporation, production of the master copy of the movie and subsequent duplication of copies of the movie will be necessary before a movie can be released.

The Group normally subcontracts these post-production processes to independent third parties which are specialised in post production of movies. The Group had not encountered and the Directors do not anticipate any difficulty in the identification of suitable post production companies.

#### *Release of movies*

Before completion of the production of the movie, the Group will prepare the relevant promotional materials for the movie to be released and distributed. These promotional materials include posters and list of cast. The Group will then send out the relevant promotional materials to potential customers.

## **SALES AND MARKETING**

### **Overview**

The Group set up its sales and distribution department in October 1998 and such department is mainly responsible for (a) the distribution of copyright/film rights of the Group's movies and sub-licensing of the film rights of movies procured by the Group; (b) handling sales activities; and (c) organising marketing functions for the Group in Hong Kong and overseas markets.

### **Distribution of the movies produced by the Group**

The Group licenses the copyrights/film rights in relation to the movies produced by the Group to various medium in various video formats including video tape, VCD, DVD and pay TV channel to independent distributors in Hong Kong and overseas who would distribute the movies to countries such as South East Asian countries, North America, Australia, New Zealand, Japan and Korea. On the other hand, the Group normally screens the movies produced by the Group in a cinema in Hong Kong. Rental has been paid to the cinema for the screening of relevant movies of the Group. In addition, the profit derived from the screening

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the Group's movies in such cinema would be shared between the Group and the cinema. The licensing period of the copyright/film rights in respect of the Group's movies normally ranges from a period of one to seven years. The Group may renew such arrangement upon the expiry of such licence agreements subject to the terms and conditions of the relevant agreements.

The copyright/film rights of the Group's movies are licensed to overseas countries mainly by independent distributors in the relevant countries which in turn distribute the Group's copyright/film rights to various customers in the format in which the Group's licenses permit.

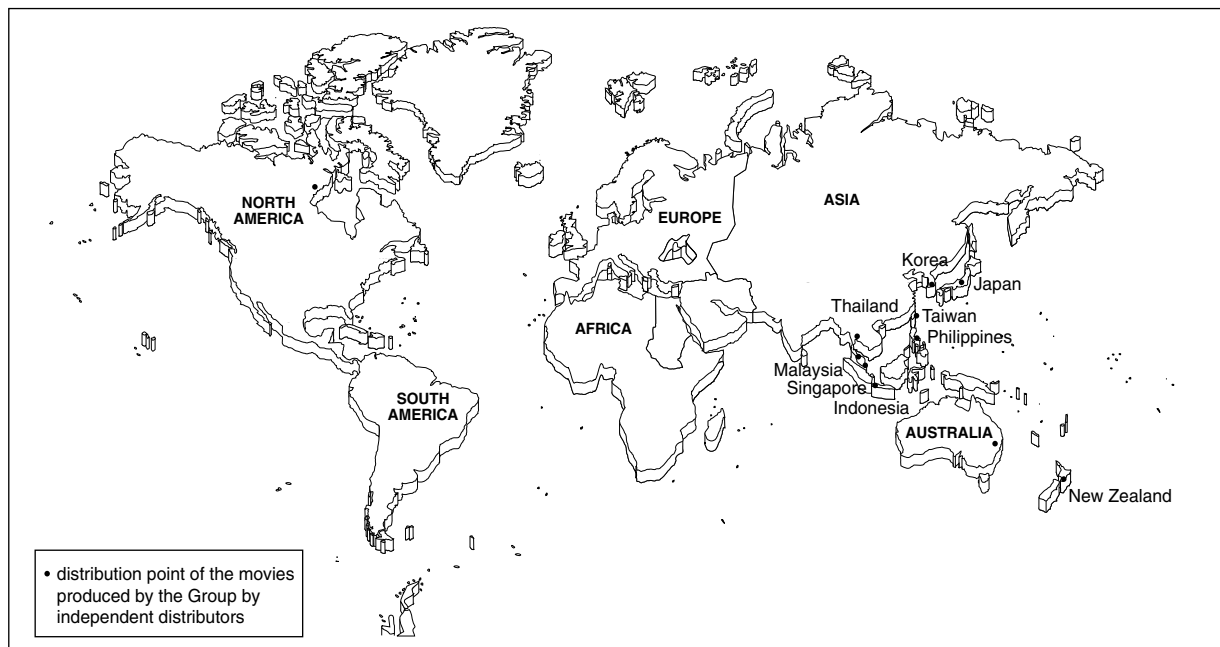
The following table shows the breakdown of the licences granted by the Group in respect of copyright/film rights of movies owned by the Group either by licensing directly to the cinema operator in Hong Kong or through the distributors to other locations:

	<b>For the year ended 30th June,</b>				<b>For the six months ended 31st December,</b>	
	<b>2000</b>		<b>2001</b>		<b>2001</b>	
	<i>HK\$</i>	%	<i>HK\$</i>	%	<i>HK\$</i>	%
Hong Kong	7,134	30.4	26,037	92.1	10,462	82.3
North America	1,050	4.5	220	0.8	200	1.6
Asian and Oceanic countries	<u>15,288</u>	<u>65.1</u>	<u>2,010</u>	<u>7.1</u>	<u>2,049</u>	<u>16.1</u>
<b>Total</b>	<u><u>23,472</u></u>	<u><u>100.0</u></u>	<u><u>28,267</u></u>	<u><u>100.0</u></u>	<u><u>12,711</u></u>	<u><u>100.0</u></u>

As at 31st December, 2001, the Group has entered into various licence agreements with independent distributors in distributing the Group's copyright/film rights to different locations including North America, Taiwan, Indonesia, Thailand, Philippines, Malaysia, Singapore, Korea, Japan, Australia and New Zealand. The Directors consider that an extensive network is of great importance to boost the Group's sales and accordingly, the Group has and will continue to commit to enlarge its sales network in other regions around the world.

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The following map illustrated the geographical coverage of the Group's licences to independent distributors for the distribution of movies produced by the Group:



### Marketing

In order to maintain the Group's competitive edge in the film industry, the Directors consider that it is of great importance to promote the corporate image of the Group as well as to arouse public awareness of the movies produced by the Group. During the Track Record Period, the Group has participated in various international and local trade shows such as MIFED-the annual autumn Cinema and Television International Multimedia Market held in Milan, Italy and the annual Hong Kong International Film and TV Market-Filmart (香港國際影視展) organised by the Hong Kong Trade Development Council held in Hong Kong. On the other hand, the Group has also placed advertisement on film related magazine in Hong Kong from time to time.

### CUSTOMERS AND CREDIT CONTROL

For the two years ended 30th June, 2001 and the six months ended 31st December, 2001, the turnover generated from the five largest customers of the Group represented approximately 85.9%, 84.9% and 87.1% of the Group's total turnover respectively. For the same periods, the turnover generated from the largest customer of the Group represented approximately 64.8%, 49.2% and 30.7% of the Group's total turnover. As at 30th June, 2000, each of Mr. Siu, Mr. Siu Kuen Fat and Mr. Siu Kin Fat respectively had approximately 33.4%, 33.3% and 33.3% beneficial interests in Asia United Trading Limited, one of the five largest customers of the Group for the year ended 30th June, 2000. Save as disclosed above, so far as the Directors are aware, none of the Directors, their respective associates and the Shareholders, holding more than 5% of the issued share capital of the Company had any interest in any of the Group's five largest customers during the two years ended 30th June, 2001 and the six months ended 31st December, 2001.

During the two years ended 30th June, 2001 and the six months ended 31st December, 2001, approximately 98.6%, 98.9% and 98.9% of the Group's sales were settled in Hong Kong dollars respectively and the remaining balance were settled in US dollars. Payments by the Group's customers are usually made in cash or telegraph transmission. To maintain a strict credit policy, a deposit ranging from 20% to 50% of the amount of the products to be purchased is normally required to be paid by the customers pursuant to the license/distribution agreements. The amount of deposit required to be paid by the customers depends on the relationship between the Group and the customers. The Group normally requires its customers to settle the amount after deducting the deposit paid in cash at the time of delivery of the Group's products. For customers who have built up a good relationship with the Group and are of good creditworthiness, the Group will, on a case by case basis, offer a credit period of 30 days. The Group's debtor turnover period for each of the two years ended 30th June, 2001 and the six months ended 31st December, 2001 was approximately 4.1, 1.8 and 4.4 days respectively. The Group generally adopts a provision policy of 100% provision for trade receivables due over 365 days. Pursuant to the above policy, for the year ended 30th June, 2000, the Group has made a provision of bad and doubtful debts of approximately HK\$995,000. On the other hand, the Group had not experienced any bad debt for the year ended 30th June, 2001 and the six months ended 31st December, 2001. The Group has relationship with its customers for over three years on average.

As at the Latest Practicable Date, approximately 81.4% of the accounts receivable of approximately HK\$404,000 as at 31st December, 2001 has been subsequently settled.

## **PURCHASES AND OUTSOURCING**

The cost of sales of the Group mainly consisted of (i) outsourcing fee for the production of the Group's movies paid to the independent production crews/companies; (ii) various types of digital video cassettes or tapes for the production and storage of movies; and (iii) paper for the composition of promotional materials such as posters and lists of cast. During the Track Record Period, the Group had not experienced any difficulty in appointing independent production crews/companies and in obtaining adequate supply of raw materials. For the two years ended 30th June, 2001 and the six months ended 31st December, 2001, the Group normally purchased its raw materials in HK dollars and US dollars on cash on delivery basis or on credit terms up to 30 days. For the same periods, the Group paid a deposit ranging from 20% to 50% of the total amount of outsourcing fee to be paid to independent movies production companies/production personnels. A second payment is normally required to be paid by the Group upon completion of the shooting of the relevant movies and the Group was required to settle the remaining of the amount upon completion of the production of the relevant movies. The Group's creditor turnover period was approximately 6.1, 3.8 and 5.1 days for each of the two years ended 30th June, 2001 and the six months ended 31st December, 2001 respectively.

For the two years ended 30th June, 2001 and the six months ended 31st December, 2001, purchases from the five largest suppliers represented approximately 24.4%, 92.0% and 90.1% of the Group's total purchases respectively. For the same periods, the purchases from the largest supplier represented approximately 5.6%, 55.3% and 49.9% of the Group's total purchases respectively. As at 30th June, 2000, Mr. Hung is a director and is interested in 0.5%

of the issued share capital of Bojon Films Company Ltd, one of the five largest suppliers of the Group for the year ended 30th June, 2000. Save as disclosed above, so far as the Directors are aware, none of the Directors, their respective associates and the Shareholders who will be interested in more than 5% of the issued share capital of the Company immediately following the Placing and the Capitalisation Issue had any interest in any of the Group's five largest suppliers during the two years ended 30th June, 2001 and the six months ended 31st December, 2001.

## **FILM LIBRARY**

The Group's film library is located at the Group's principal place of business in Hong Kong. As at the Latest Practicable Date, the Group owned the entire interest in the copyrights in respect of 62 movies produced by the Group, out of which 58 movies has been released in a cinema in Hong Kong. The movies produced by the Group are mainly in DV format and as a result, require substantially lesser storage space than 35mm films. The Group's film library was valued by Vigers Hong Kong Limited, an independent professional valuer, at HK\$20.8 million as at 31st December, 2001. The table below sets out a list of titles of all the films which the Group owns the copyright as at the Latest Practicable Date.

<b>No.</b>	<b>Name of the films</b>
1.	A Killer's Expiry Date (殺手再培訓)
2.	A Long And Forgotten Ghost Story (榕樹頭講鬼)
3.	A Sympathetic Killer (殺手情未冷)
4.	B For Boy (心思思)
5.	Beach Girl (水著•青春•救生)
6.	Blow Your Head Off (一槍打爆你個頭)
7.	Bodyguard For The Dead (屍家保鏢)
8.	Century Hero (千禧巨龍)
9.	Chinese Orthopedist And Spice Girls (跌打婆與辣妹)
10.	Crazy For Pig-Bone In Pot (情迷豬骨煲)
11.	Don't Let The Sun Go Down (我愛夏日長)
12.	Feng Shui And Gambling (風水賭神)
13.	Haunted Resort (東堤渡假鬼屋)
14.	Hot Rod (夜車之血青年)
15.	I Shoot Myself (陽性反應)
16.	I. C. Kill (網上怪談之兇靈對話)
17.	I'm Stone In Love With You (遠走高飛)
18.	It's a Mad, Mad, Mad, Mad, Kungfu World (大踢爆)
19.	Killing Lover (致命戀人)
20.	Last Sight From Death (垂死一眼)
21.	Ling's Story (現代女性)
22.	Love And Death On The Edge (特技人之冷暖心聲冷暖情)
23.	Mr. A? Mr. C? (A君?C君?)
24.	My Good Brother (好兄吾兄)

<b>No.</b>	<b>Name of the films</b>
25.	Mysterious Story (1) Please Come Back (怪異集之你回來吧!)
26.	Mysterious Story (II) No Vacancy (怪異集之快離開吧!)
27.	No Time For Two (有殺錯冇愛錯)
28.	On And Bom (安仔與波子)
29.	Our Last Day (第 100 日)
30.	Outburst (老薑)
31.	The Pale Sky (沒有小鳥的天空)
32.	Pizza Express (薄餅速遞)
33.	Prison On Fire - Life Sentence (監獄風雲之終身犯)
34.	Prison On Fire - Plaintive Destiny (監獄風雲之夜囚)
35.	Schizophrenic (失約時空)
36.	Seamy Side of Life - A Black Chick (黑暗時代之無證妓女)
37.	Stupid (死蠢)
38.	Tales In The Wind (愛情傳真)
39.	Textiles At Heart (裳在我心間)
40.	The Evil Of A Woman's Heart (最毒婦人心)
41.	The Hidden Enforcers (殺手狂龍)
42.	The House Of No Man (摩登姑婆屋)
43.	The Road Of Dead (屍家路)
44.	The Social Worker From The Edge (猛鬼女社工)
45.	The Three Brothers (串燒三兄弟)
46.	There's A Ghost In The Boy's Room (鬼咁過癮)
47.	Till Death Do Us Part (冥婚)
48.	To Be No.1 - Shepherd (金榜題名之流氓社工)
49.	Tough Cop Inside (內有惡警)
50.	Troublesome Night 5 (陰陽路五之一見發財)
51.	Troublesome Night 8 (陰陽路八之棺材仔)
52.	Troublesome Night 9 (陰陽路九之命轉乾坤)
53.	Troublesome Night 10 (陰陽路十之宣言咒)
54.	Troublesome Night 11 (陰陽路十一之撩鬼擺命)
55.	Troublesome Night 12 (陰陽路十二之美容屍)
56.	Troublesome Night 13 (陰陽路十三之花鬼)
57.	Two Courageous Ghosts (兩隻衰鬼唔識死)
58.	Unexpected Killing (殺手風雲之買大開細)
59.	Freaky Story (不寒而慄)
60.	Troublesome Night 14 (陰陽路十四之雙鬼拍門)
61.	Money Suckers (一屋貪錢人)
62.	Windfall Profits (橫財就手)

As at the Latest Practicable Date, the Group has a total of two movies with total estimated cost of approximately HK\$1.9 million under production and such movies are expected to be completed on or before August 2002.

## **QUALITY ASSURANCE**

The Group aims to continue to produce high quality movies using both DV filming technology and 35mm filming technology in the future. The Directors consider that it is important for the Group to produce movies with rich content and to follow closely the market trend and at the same time to maintain the sound and visual qualities of the movies. The Group has adopted the following strategies in order to meet the above criteria in the production of the Group's movies:

- in the process of selecting appropriate scripts, the Directors will seriously consider the content of each proposed script and, in the case the proposed script is submitted by freelance writers, the Group will only select those scripts which are written by trustworthy freelance writers with reputation;
- in the process of producing the movies, the Group will only select for co-operation with production crews which are trustworthy and/or have established a good business relationship with the Group; and
- as described in the section headed "Process for the production of movies" above, the Group will normally subcontract the process of production in relation to post-production of films to independent third parties which are specialising in post-production process including sound editing, filtering of color and visibility of films and implantation of various special effects. The Group will only subcontract post-production works to independent third parties which have long relationship with the Group and/or ability to provide high quality services and possess qualified equipment such as acoustic-free recording rooms and machines for testing of visual and sound quality of films.

## **COMPETITIVE ADVANTAGES**

The Directors consider that the Group has the following strengths and competitive advantages:

- the Group is one of the prime movers in the DV format movie production industry in Hong Kong and the Group has an advantage in the production and distribution of DV format movies;
- efficiency and cost effectiveness in the Group's production processes as a result of the use of DV filming technology which provides flexibility for the Group's development in the future;
- its experienced and dedicated management team which possesses an in-depth knowledge in the production and distribution of movies produced by the Group;
- its close relationship with customers and suppliers; and
- its film library consisting of 60 movies enabling the Group to further develop and expand its business.

## **COMPETITION**

### **Overview**

The Directors consider that competition in the film industry is intense with the presence of a number of competitors who may have better or long established reputations, greater resources and a longer operating history as compared to the Group. Competition is based on the quality of the films produced, market reputation and distribution networks as well as positioning in the market. The Directors believe that the Group mainly faces competition from film producers of Chinese language movies which are mainly located in Hong Kong.

The Group's movies are mainly distributed overseas including Asian countries, North America, New Zealand and Australia. The Directors believe that the Group has built up good relationship with its customers who are mainly located overseas. The Group has placed great emphasis on the control of the cost of production of the Group's motion pictures and at the same time, maintained a high quality of standard of the relevant motion pictures. In addition, the Directors believe that one of the most important competitive strengths of the Group lies in the Group's ability to produce movies with contents and qualities which are suitable for customers in overseas market.

### **Companies in which Mr. Siu has beneficial interests**

Ligital Limited, a company wholly owned by Mr. Siu, is engaged in the business of yarn trading and dyeing which is completely different from the business of the Group and therefore it is not included as part of the Group.

On the other hand, Asia United Trading Limited ("Asia United"), a company owned as to approximately 33.4%, 33.3% and 33.3% by each of Mr. Siu, Mr. Siu Kin Fat and Mr. Siu Kuen Fat, has been engaged in the re-distribution of copyright/film rights of the Group's movies in the Taiwan market. As the distribution business was newly set up in Taiwan, in order to avoid jeopardizing the relationship with other Taiwan distribution agents, the distribution agreements were entered into by Asia United. Thereafter, the Company sold its film rights to the Taiwan market through B & S Films Distribution, a member of the Group. Asia United has ceased to distribute copyright/film rights of movies of the Group since 1st July, 2001 and thereafter, became inactive and as a result, the Directors consider that it should not be included in the Group and there is no competition in business between the Group and Asia United.

Mr. Siu, Mr. Siu Kuen Fat and Mr. Siu Kin Fat, being the shareholders of Asia United, have given an undertaking in favour of the Company that (for so long as they are the directors of any member of the Group or the controlling shareholders of any member of the Group) they will not engage in any business which will compete or potentially compete with the business of the Group at present and in the future.

Mr. Siu, Mr. Siu Kuen Fat and Mr. Siu Kin Fat confirmed that they have not engaged in other business which is in competition with the Group.

**Companies in which Mr. Hung Kam Po, a non-executive Director, has beneficial interests and directorship**

*Bojon Films Company Limited*

Bojon Films Company Limited, a company owned as to approximately 0.5% by Mr. Hung Kam Po, is engaged in the provision of actors for the film industry and as a result, the Directors do not consider that there is any competition in business between the Group and Bojon Films Company Limited.

To the best knowledge of the Directors and based on the latest company search record, the remaining shareholder of Bojon Films Company Limited is Ms. Chan Mei Yuk, Mable, an independent third party.

*Far East Asia*

Far East Asia is beneficially owned by Mr. Hung and is engaged in the business of provision of actors, film directors and martial art instructors and the Group has not been engaged in such business and as a result, the Directors consider that there is no competition in business between the Group and Far East Asia.

The Directors confirmed that both Bojon Films Company Limited and Far East Asia have not engaged in the business of production of films.

**REGISTRATION OF FILM RIGHTS OF FILMS**

All the Group's movies are registered with the Hong Kong, Kowloon & New Territories Motion Pictures Industry Associations Limited ("MPIA"). MPIA is a non-government private organisation in Hong Kong responsible for registration of copyright of movies produced by its members in Hong Kong and maintained a database of copyright of the relevant movies which are accessible by members and authorised person such as custom and excise department of the Hong Kong government through the Internet. The Group, through Best Faith Trading under the name of B&S Creation Works House, is a member of the MPIA.

On 31st January, 2002, MPIA launched an online copyright database. The online copyright database of MPIA is the first online film copyright database in Hong Kong which is designed to provide services to both the public and the law enforcement authorities. The online copyright database of MPIA can provide to both local and overseas copyright enforcement authorities, during their course of investigation, to obtain important copyright information immediately through Internet. The database has been made available to Customs and Excise Department of the Hong Kong government.

Registration with MPIA is not compulsory for the Group and the Directors consider registration with MPIA, to a certain extent, will assist the Group in the protection of the copyright of the films produced by the Group. On the other hand, the Directors also consider that registration with MPIA may not, in any event, assist the Group or is beneficial to the Group.

**CENSORSHIP RULES IN HONG KONG**

During the Track Record Period, most of the movies produced by the Group (including one 35mm format movie and 42 DV format movies) have been released in cinemas in Hong Kong and accordingly, the Group is required to send the movies produced by the Group to the Television and Entertainment Licensing Authority (“TELA”) before they could be released in any cinema in Hong Kong and in various video formats. TELA will classify the movies based on their contents to determine the suitability for viewing by different age groups.

In addition, during the Track Record Period, the 700 movies which have been purchased by the Group for sub-licensing have not been released in any cinema in Hong Kong and have been sub-licensed to its distributors for release in various video formats only.

The review process for TELA on the Group’s movies generally takes about 14 days.

The movies procured by the Group are for sub-licensing and not for release in cinemas in Hong Kong. According to the opinion of the legal counsel of the Company, as a licensor, the Group is not liable to any breach of the relevant legal requirements, in particular, the Control of Obscene and Indecent Articles Ordinance and Film Censorship Ordinance of the sub-licensee and the Group is not required by law or regulation to submit such movies to the TELA for classification. During the Track Record Period, the Group has sub-licensed all of the 700 movies to one sub-licensee only. On the other hand, up to the Latest Practicable Date, the Directors confirmed that, to their best knowledge, they are not aware of any breaches of the relevant laws by the sub-licensee.

**INTELLECTUAL PROPERTY RIGHTS**

Films in general are not capable of being registered under the Trade Marks Ordinance. The paragraph headed “Intellectual property rights” under the section headed “Further information about the business” in Appendix IV to this prospectus refers only to the Group’s application for registration in respect of the use of certain trademarks in Hong Kong, i.e. the Company’s logo. Details of the intellectual property rights of the Group are set out in the said section of Appendix IV to this prospectus.

There is no legally recognised system for registration of the owners of intellectual property rights of film in Hong Kong and it is impossible to resort to one single reference for the purpose of identifying owners of copyright in films. According to the Copyright Ordinance Chapter 258 of the Laws of Hong Kong, the Group, as the producer, and other principal directors of the films, are the first joint owners of the copyright in films. However, as one of the first joint owners of the copyright, the Group may be involved in possible claims by various other parties involved in the film, including directors, actors and actresses of the film, for copyright in their respective works which form part of the film, such as the script and the soundtrack.

From a defensive perspective, in sourcing works from third parties, the Group will require warrant on the intellectual property rights in their works and indemnity from them in the case of any breach. The Group also maintains close monitoring on responses from customers and suppliers and other market intelligence.

**CONNECTED TRANSACTIONS**

Prior to the listing of the Shares on GEM, the Group has entered into four transactions, two of which is expected to continue after the listing of the Shares on GEM and will, therefore, constitute connected transactions (as defined in the GEM Listing Rules) for the Company. These connected transactions are described as below.

**Discontinued connected transactions**

- For the two years ended 30th June, 2001 and the six months ended 31st December, 2001, the Group has paid HK\$2,640,000, HK\$2,640,000 and HK\$1,320,000 respectively to Lightal Limited (“Lightal”) (*Note 1*) in respect of the provision of back-office support including administrative and accountancy services to the Group. The transaction will be terminated upon the listing of the Shares on GEM.

The monthly service fee of HK\$220,000 related to the general administrative services, accounting services and film distribution and marketing services provided to the Group and such service fee was charged with reference to actual costs incurred. The details of the monthly service fee charged are as follows:

		<b>Year ended 30th June,</b>		<b>Six months ended 31st December,</b>
		<b>2000</b>	<b>2001</b>	<b>2001</b>
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries of six staff	1	158	158	158
Share of rental of an office	2	14	14	20
Share of other operating expenses	3	<u>48</u>	<u>48</u>	<u>42</u>
		<u>220</u>	<u>220</u>	<u>220</u>

*Notes:*

- The amount related to the actual salary paid to the staff currently employed by Lightal Limited. Immediately prior to the listing of the Shares on GEM, four staff will be transferred to the Group. Two additional staff will be recruited by the Group.
- The amount related to the share of office space occupied by the staff mentioned in paragraph 1 above. Immediately prior to the listing of the Shares on GEM, the staff will move to the existing office of the Group.
- The amount related to the share of operating expenses such as entertainment, motor vehicle expenses, electricity and telephone charges etc. Some of the expenses were actually incurred by staff mentioned in point 1 above. Upon the listing of the Shares on GEM, the Group will incur and bear all such expenses.

The Directors and the Sponsor are of the opinion that such transaction was entered into on normal commercial terms, determined on an arm's length basis and carried out in the usual and ordinary course of business of the Group and the terms of which are fair and reasonable so far as the Group and the Shareholders are concerned.

2. For the two years ended 30th June, 2001 and the six months ended 31st December, 2001, the Group has sold the film rights of certain movies produced by the Group to Asia United Trading Limited ("Asia United") (*Note 2*) for HK\$1,515,000, HK\$820,000 and HK\$nil respectively. For the year ended 30th June, 2000, the Group has also sold VCDs of approximately HK\$870,000 to Asia United. Asia United has not been engaged in any other business except for re-distribution of film rights of certain movies produced by the Group to overseas countries. In addition, Asia United has ceased to distribute movies of the Group since 1st July, 2001 and thereafter, became inactive and it will not carry out any business in the future including any transaction with the Group. During the two years ended 30th June, 2001 and the six months ended 31st December 2001, the Group has respectively license the copyright/film rights of thirty-nine, eight and nil movies produced by the Group to Asia United. The Directors confirmed that the Group sold some of the distribution rights of its films to Asia United for re-distribution mainly to the Taiwan market. As the Group's distribution business was newly set up in Taiwan at the relevant time, in order to avoid jeopardizing the relationship with other major Taiwan distribution agents, the distribution agreements were entered by Asia United. Thereafter, the Group sold its film rights to the Taiwan market directly through B & S Films Distribution. Such transactions in respect of Asia United had been terminated since 1st July, 2001.

*Notes:*

1. Lightal is wholly owned by Mr. Siu. As a result, Lightal is a connected person to the Company upon listing of the Shares on GEM and pursuant to the GEM Listing Rules.
2. Asia United is owned as to approximately 33.4%, 33.3% and 33.3% by Mr. Siu, Mr. Siu Kin Fat and Mr. Siu Kuen Fat respectively. As a result, Asia United is a connected person to the Company upon listing of the Shares on GEM pursuant to the GEM Listing Rules.

Amongst the above-mentioned connected transactions, transaction (2) has already been terminated since 1st July, 2001 and transaction (1) will be terminated upon the listing of the Shares on GEM. Up to 31st May, 2002, the payment for the back office support from the Group to Lightal was calculated at HK\$220,000 per month.

**Exempted continuing connected transactions**

For the two years ended 30th June, 2001 and the six months ended 31st December, 2001, the Group has leased from Lightal the Premises (as defined below) and incurred rental expenses of approximately HK\$154,000, HK\$168,000 and HK\$84,000 respectively. The Group has

entered into a lease agreement with Lightal whereby the Group leased from Lightal the property located at 7th Floor, Cheong Tai Factory Building, No. 16 Tai Yau Street, Sanpokong, Kowloon, Hong Kong (the “Premises”) as office at an annual rent of HK\$168,000 for a term of three years commencing from 31st January, 2002.

The Directors and the Sponsor are of the opinion that the Exempted Continuing Connected Transaction was entered into on normal commercial terms, determined on an arm’s length basis and carried out in the usual and ordinary course of business of the Group and the terms of which are fair and reasonable so far as the Group and the Shareholders are concerned. The Directors, including the independent non-executive Directors, and the Sponsor, based on the opinion of Vigers Hong Kong Limited, an independent professional valuer, consider that the rental expenses are comparable to market rate and the terms of the tenancy agreement are fair and reasonable so far as the Group and the Shareholders are concerned.

The annual aggregate consideration of the Exempted Continuing Connected Transaction will be less than HK\$1,000,000 and will fall within the exemption under Rule 20.25(3) of the GEM Listing Rules. Accordingly, the Exempted Continuing Connected Transaction will be exempted from the reporting, announcement and Shareholders’ approval requirements under Chapter 20 of the GEM Listing Rules. The Directors will closely monitor the aggregate amounts involved in the Continuing Connected Transaction and if the amount exceeds HK\$1,000,000 or if any terms of the Continuing Connected Transaction is altered or if the Company enters into any new agreement with any connected persons (within the meaning of the GEM Listing Rules) in the future, the Company will comply with all applicable requirements of the GEM Listing Rules in connection therewith.

### **Non-exempted continuing connected transaction**

#### *Background*

As at 30th June, 2001, the Group has paid approximately HK\$4 million to Far East Asia. Mr. Hung is a director and is interested in the entire issued share capital of Far East Asia. Accordingly, Far East Asia is regarded as connected person to the Company under the GEM Listing Rules.

Pursuant to an agreement entered into between the Group and Far East Asia (“Original Agreement”), the Group has made a payment of HK\$4 million to Far East Asia, being actors’ fee for Mr. Hung’s participation in film production for a fixed number of scenes of movies, to be produced and sold by the Group. According to the accounting policies of the Group, the payment of the aggregate amount of HK\$4 million as at 30th June, 2001 will be recognized as cost of sales of the Group at the time when the relevant movie is being sold by the Group. The Directors, at present, expect that the Group will begin the production of the relevant movies at the beginning of December 2002 and such movies are expected to be completed by the end of year 2003. As a result, the Directors consider that the Cap of the utilisation of such actors’ fee will amount to a total of HK\$2 million for each of the year ending 30th June, 2003 and 30th June, 2004 respectively.

The Group has entered into a supplementary agreement on 25th July, 2002 (“Supplementary Agreement”) with Far East Asia and pursuant to which, the services to be provided by Mr. Hung through Far East Asia shall be completed within two years from the date of the Supplementary Agreement. At the expiry of such two-year period, should the amount of HK\$4 million has not been utilized, the Group has an option to apply the remaining amount for a further two years from the expiry of the initial two-year period on the same terms and conditions as the Original Agreement and subject to requirements of the GEM Listing Rules.

The continuing connected transaction contemplated under the above agreement constitutes non-exempted continuing connected transaction under Rule 20.26 of the GEM Listing Rules (“Non-exempted Continuing Connected Transaction”).

The Directors (including the independent non-executive Directors) confirm that save as disclosed above, there is no other connected transaction in which the Group is involved which has taken place and /or will continue after the listing of the Shares on GEM. In the opinion of the Directors and the Sponsor, the transaction referred to above and the respective agreements (if any) governing such transaction, are (a) entered into by the Group in ordinary and usual course of business; (b) on normal commercial terms; and (c) on terms that are fair and reasonable so far as the Shareholders are concerned.

#### *Waiver*

The Company has applied to the GEM Listing Division, in respect of the Non-exempted Continuing Connected Transaction, for a waiver for the announcement requirements as required under Rule 20.35 of the GEM Listing Rules and the Shareholders’ approval requirement as set out in Rule 20.36 of the GEM Listing Rules for the three years ending 30th June, 2005. Details of the waiver granted to the Company in relation to the Non-exempted Continuing Connected Transaction are set out in the paragraph headed “Continuing connected transactions” in the section headed “Waiver from compliance with the GEM Listing Rules and the Companies Ordinance” of this prospectus.

## **BUSINESS OBJECTIVES**

The Group aims to become an active movie producer and distributor of Chinese language movies in the Greater China region, North America, Europe, Asia and other countries. The Group has been engaged in the production of movies using both DV filming equipment and 35mm filming equipment. DV filming technology has emerged in the past few years and has been adopted by certain movie-makers in the US for the production of movies. The Group is one of the movie-makers in Hong Kong which uses DV filming technology for the production of Cantonese speaking movies and mainly distributed to Chinese communities in Asia, North America, Australia and New Zealand. The Directors believe that the future demand for both DV format movies and 35mm format movies are enormous as (a) the popularity of DV format movies is expected to increase and; (b) 35mm format movies will remain as a traditional way of the production of movies.

In addition, the Directors are of the view that the popularity of Chinese movies will be extended to non-Chinese market in the future. With the existing market presence in Hong Kong, North America, Asia, Australia and New Zealand, the Group aims to expand its sales and distribution networks, increase the number of movies to be produced, adopt the latest DV filming technology and further enhance the quality and richness of the content of the movies to be produced by the Group.

Currently, the Hong Kong film industry, with the support of the Hong Kong government and the continuing recovery in the region, is undergoing a resurgence. Moreover, the boom in Asian cable and satellite channels over the last few years has provided a ready market for the film producers within the region. The increase in output reflected the upbeat mood in the local market as well as very strong international interest in Hong Kong films. In 2000, Hong Kong ranked as the fourth largest film producing economy, behind India, the US and Japan. In terms of per capita production, Hong Kong is the top in the world.

## **BUSINESS STRATEGIES**

The Group plans to achieve the above business objectives via the following strategies:

- **Investment in production equipment**

In order to establish itself as one of the leading DV format movie producers and distributors in Hong Kong for overseas and domestic customers and with the anticipated increase in the demand for DV format movies in the future, the Group intends to further invest in various equipment for the production of DV format movies. On the other hand, in order to upgrade its existing equipment and to keep abreast of the development of the application of both DV format movies and 35mm format movies technology, the Group also intends to invest in production equipment with the latest technology from time to time. The Directors believe that the use of the latest movie technology will enable the Group to produce movies in a cost effective way and is essential for the Group to continue to produce high quality movies in the future.

## STATEMENT OF BUSINESS OBJECTIVES

- **Increase the budget for employment of cast for movies to be produced by the Group**

The Directors consider that during the Track Record Period, the number of cast employed by the Group for the production of movies has been limited. In order to expand and strengthen the marketability of the Group's movies and to continue to provide high quality movies with rich content of different varieties, the Group plans to increase the budget for employment of casting in the future on a project by project basis.

- **Expansion of the geographical reach and market penetration of the Group**

With the existing market in Hong Kong and the Chinese community in the rest of Asia, North America, Australia and New Zealand, the Group aims to expand its geographical reach by exploring the distribution of the Group's movies to the Chinese community in other areas such as Europe. In view of the above and in order to strengthen the Group's position, the Group will actively pay regular visits to the existing customers of the Group in order to promote the Group's movies and attend tradeshows and film festivals for the promotion of the Group's movies to new potential customers.

The Group also plans to extend its sales and distribution networks to non-Chinese communities around the world as the Directors believe that after the release of a Oscar-winning Chinese film in 2001, more interest has been shown by the US and European markets in Chinese films and the demand for such films is anticipated to increase and as a result, the Group plans to produce Chinese films which may interest the US and European markets.

On the other hand, the Group will enhance the distribution of the Group's movies to pay TV channel and intends to open up its distribution networks to Internet based television in Hong Kong and the Greater China Region. The Directors anticipate that future demand for rich content Chinese movies in those media will be high.

- **Training for film industry related human resources**

The Directors believe that the supply of experienced and high quality human resources is an important factor for the successful development of the Group's business. The Directors consider that the supply of human resources in the film industries including film directors, film producers, art directors, actors/actresses and other related personnel is unstable and unstructured and a steady supply of high quality human resources is important for the production of high quality films and the development of the overall film industry in the future. In view of the above, the Group plans to set up training departments and organise courses and seminars for potential human resources in different sectors of the film industry including but not limited to (a) film directors; (b) film screenplay writers; (c) film producers; (d) actors/actresses; and (e) post-production crew.

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The training courses will not be profit making in nature and the Group will not rely on it as a future major source of income. The Directors consider that the training courses will assist the Group to identify and retain suitable and competent personnel in the film industry for the development of the Group's business in the future. The Directors also believe the training courses will not only benefit the Group but also the entire film industry in Hong Kong in the long run. Thus, it is the present intention of the Group that the training courses will be open to the public.

- **Screening of the Group's movies in cinemas in Hong Kong and development of new businesses**

To strengthen the Group's revenue and to expand the Group's revenue channels, the Directors consider that apart from concentrating on the development of overseas markets, the Group also intends to increase the penetration of the screening of the Group's DV format movies in cinemas in Hong Kong. At present, there are only one cinema and two theatres in Hong Kong which have installed equipment for the screening of DV format movies. Accordingly, the Group plans to form alliances with cinemas in Hong Kong for the screening of DV format movies by jointly investing in the relevant DV movies screening equipment. The revenues which are expected to be generated from such alliances will be shared between the Group and the relevant cinemas in proportion to their respective investments which is tentatively set at 40% and 60% respectively. The Directors believe this kind of alliance arrangements will enable the Group to expand its market share in Hong Kong and strengthen its revenue base in the future. As at the Latest Practicable Date, the Group has yet to engage in negotiating the relevant arrangement with cinemas in Hong Kong or elsewhere.

To further strengthen the Group's revenue in the future, the Group also plans to engage in the provision of advertising services to customers seeking alternative marketing channels by advertising their products in the Group's movies. The Directors anticipate that the market penetration of the Group's movies will increase in the future and as a result, customers' interest for placing advertisement in the Group's movies will also increase.

# STATEMENT OF BUSINESS OBJECTIVES

## REVENUE MODEL

The Group's existing core business is the production of movies in Hong Kong and distribution of copyrights/film rights of (i) movies produced by the Group to overseas countries and in Hong Kong; and (ii) sub-distribution of movies procured from overseas movie producers through independent third parties in Hong Kong. To further develop the Group's business and operations, the Group plans to undertake business activities which include the expansion and penetrating of geographical reach of the Group and screening of the Group's movies in cinemas in Hong Kong. The revenue model of the Group is illustrated as follows:

<b>Time horizon</b>	<b>Period I: Latest Practicable Date to 31st December, 2002</b>	<b>Period II: 1st January, 2003 to 30th June, 2003</b>	<b>Period III: 1st July, 2003 to 31st December, 2003</b>	<b>Period IV: 1st January, 2004 to 30th June, 2004</b>	<b>Period V: 1st July, 2004 to 31st December, 2004</b>	<b>Period VI: 1st January, 2005 to 30th June, 2005</b>
<b>Revenue base</b>						
Revenues to be derived from production of movies in Hong Kong and distribution of copyright/film rights						→
Revenues to be derived from distribution of copyright/film rights to pay TV channel, cable television channel and other medium						→
Revenues to be derived from distribution of copyright/film rights to Europe and non-Chinese community						→
Revenues to be derived from broadcasting of DV format movies in cinemas in Hong Kong						→

# STATEMENT OF BUSINESS OBJECTIVES

## BASES AND ASSUMPTIONS

The Directors have adopted the following assumptions in the preparation of the statement of business objectives and the establishment of the milestones up to 30th June, 2005.

### General assumptions

1. There will be no material change in the existing political, legal, fiscal, foreign trade or economic conditions in Hong Kong or other countries in which the Group operates or intends to operate;
2. there will be no material change in the bases or rates of taxation in the countries in which the Group operates or intends to operate;
3. there will be no significant change in interest rates or foreign exchange rates from those currently prevailing; and
4. the Group will retain its key executives.

### Specific assumptions

1. There will be a sufficient supply of film industrial practitioners;
2. there will be a continuous demand for Chinese or Cantonese speaking movies among the world-wide Chinese and non-Chinese community;
3. the Group's operation and financial conditions are not adversely affected by any of the risk factors set out in the section headed "Risk factors" in this prospectus or any new risk factors faced by the Group; and
4. there will not be any unforeseeable circumstances or events occurring during the period from the Listing Date up to 30th June, 2004 which will materially and adversely affect the implementation of the business plan.

# STATEMENT OF BUSINESS OBJECTIVES

## IMPLEMENTATION PLANS

As part of the Group's plan to implement the above strategies, the Group intends to undertake the following actions within the time period specified.

### Period I: Latest Practicable Date to 31st December, 2002

Strategy	Amount <i>HK\$ million</i>	Plan
Enhancement of production equipment	0.7	<ul style="list-style-type: none"> <li>● Procure production equipment including digital video cameras and sound recording equipment with the latest slow and fast motions capabilities technologies at relevant time</li> <li>● Carry out feasibility study for the procurement of advanced films editing machines which are capable for the creation of multiple version of films' master as well as moving certain part of a movie from one location to another location within a short time</li> </ul>
Improvement of the cast quality of movies	0.3	<ul style="list-style-type: none"> <li>● Commence to employ additional cast on project basis for the Group's movies to be produced</li> </ul>
Sales and marketing	0.5	<ul style="list-style-type: none"> <li>● Continue to attend tradeshows and film festivals</li> <li>● Expand sales and distribution teams</li> <li>● Commence to build up network for distribution in cable television channel</li> <li>● Explore the opportunity to open the market for the distribution of the copyright/film rights in respect of the Group's movies to Europe</li> </ul>
Development and training of human resources	0.5	<ul style="list-style-type: none"> <li>● Set up training department and recruit staff responsible for the provision of training</li> </ul>
Enhancement of broadcasting in cinemas and development of new business	1.0	<ul style="list-style-type: none"> <li>● Commence negotiation with a number of cinemas in Hong Kong for installation of equipment capable of broadcasting of DV format movies</li> </ul>
<b>Total amount to be invested for period I</b>	<b>3.0</b>	

## STATEMENT OF BUSINESS OBJECTIVES

**Period II: 1st January, 2003 to 30th June, 2003**

<b>Strategy</b>	<b>Amount <i>HK\$ million</i></b>	<b>Plan</b>
Enhancement of production equipment	1.5	<ul style="list-style-type: none"> <li>● Continue to expand the production capacity of the Group by procurement of production equipment which process capability of providing slow and fast motions with latest technologies at the relevant time</li> <li>● Procure additional films editing machines</li> </ul>
Improvement of the cast quality of movies	0.5	<ul style="list-style-type: none"> <li>● Continue to employ additional cast on project basis for the Group's movies to be produced</li> </ul>
Sales and marketing	1.0	<ul style="list-style-type: none"> <li>● Continue to attend tradeshows and films festivals</li> <li>● Explore the opportunity to open the market for the distribution of the copyright/film rights in respect of the Group's movies to non-Chinese community in North America</li> <li>● Begin to distribute the copyright/film rights in respect of the Group's movies to Europe</li> <li>● Continue to expand the network for distribution in cable television channel</li> </ul>
Development and training of human resources	0.5	<ul style="list-style-type: none"> <li>● Continue to operate training courses and recruitment of prospective trainees</li> </ul>
Enhancement of broadcasting in cinemas and development of new business	0.5	<ul style="list-style-type: none"> <li>● Commence investment in screening equipment jointly with certain cinema operators</li> <li>● Continue to negotiate with not less than three additional cinema operators in Hong Kong for investment in DV screening equipment</li> </ul>
<b>Total amount to be invested for period II</b>	4.0	

# STATEMENT OF BUSINESS OBJECTIVES

**Period III: 1st July, 2003 to 31st December, 2003**

<b>Strategy</b>	<b>Amount</b> <i>HK\$ million</i>	<b>Plan</b>
Enhancement of production equipment	1.5	<ul style="list-style-type: none"> <li>● Continue to expand the production capacity of the Group's filming equipment</li> </ul>
Improvement of the cast quality of movies	0.8	<ul style="list-style-type: none"> <li>● Continue to employ additional cast on project basis for the Group's movies to be produced</li> </ul>
Sales and marketing	1.5	<ul style="list-style-type: none"> <li>● Continue to attend tradeshowes and film festivals</li> <li>● Continue to expand the sales and distribution teams by employing 2 additional staff</li> <li>● Continue to expand the network for distribution in cable television channel</li> <li>● Begin to distribute the copyright/ film rights in respect of the Group's movies to non-Chinese community in North America</li> </ul>
Development and training of human resources	1.0	<ul style="list-style-type: none"> <li>● Continue to operate training courses and organize new training courses which meet the latest development of the film industry</li> </ul>
Enhancement of broadcasting in cinemas and development of new business	1.5	<ul style="list-style-type: none"> <li>● Continue to negotiate with additional cinema operators in Hong Kong for investment in DV screening equipment</li> </ul>
<b>Total amount to be invested for period III</b>	<b>6.3</b>	

# STATEMENT OF BUSINESS OBJECTIVES

**Period IV: 1st January, 2004 to 30th June, 2004**

<b>Strategy</b>	<b>Amount <i>HK\$ million</i></b>	<b>Plan</b>
Enhancement of production equipment	1.8	<ul style="list-style-type: none"> <li>● Continue to expand the production capacity by procurement of equipment with the latest technologies at the relevant time</li> <li>● Procure equipment for implantation of special effects for the movies to be produced by the Group</li> </ul>
Improvement of the cast quality of movies	0.9	<ul style="list-style-type: none"> <li>● Continue to employ additional cast on project basis for the Group's movies to be produced</li> </ul>
Sales and marketing	1.5	<ul style="list-style-type: none"> <li>● Continue to attend tradeshows and film festivals</li> <li>● 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</li> <li>● Continue to expand the sales and distribution teams by employing 2 additional staff</li> <li>● 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</li> </ul>
Development and training of human resources	1.0	<ul style="list-style-type: none"> <li>● Continue to organise training courses which are relevant to the development of the films industry</li> </ul>
Enhancement of broadcasting in cinemas and development of new business	1.5	<ul style="list-style-type: none"> <li>● Continue to negotiate with not less than three additional cinema operators in Hong Kong for investment in DV screening equipment</li> <li>● Continue to invest in DV screening equipment jointly with cinema operators</li> </ul>
<b>Total amount to be invested for period IV</b>	<b>6.7</b>	

# STATEMENT OF BUSINESS OBJECTIVES

**Period V: 1st July, 2004 to 31st December, 2004**

Strategy	Plan
Enhancement of production equipment	<ul style="list-style-type: none"> <li>● Enhance and/or upgrade existing production equipment to improve production efficiency and quality, if necessary, procure equipment with latest available technologies</li> </ul>
Improvement of the cast quality of movies	<ul style="list-style-type: none"> <li>● Continue to employ additional cast on project basis for the Group's movies to be produced</li> </ul>
Sales and marketing	<ul style="list-style-type: none"> <li>● Advertise the films of the Group on magazines to increase popularity</li> <li>● Continue to expand the sales and distribution teams by employing one additional staff</li> <li>● Organise promotional campaign jointly with cinemas, such as special price on tickets for a certain period of time</li> </ul>
Development and training of human resources	<ul style="list-style-type: none"> <li>● Provide subsidies for its own staff to attend relevant training courses or arrange internal courses in order to enhance the Group's productivity</li> </ul>
Enhancement of broadcasting in cinemas and development of new business	<ul style="list-style-type: none"> <li>● Continue to negotiate with not less than three additional cinema operators in Hong Kong for investment in DV screening equipment</li> <li>● Continue to invest in DV screening equipment jointly with cinema operators</li> </ul>

# STATEMENT OF BUSINESS OBJECTIVES

**Period VI: 1st January, 2005 to 30th June, 2005**

Strategy	Plan
Enhancement of production equipment	<ul style="list-style-type: none"> <li>● Continue to enhance and/or upgrade existing production equipment to improve production efficiency and quality</li> </ul>
Improvement of the cast quality of movies	<ul style="list-style-type: none"> <li>● Continue to employ additional cast on project basis for the Group's movies to be produced</li> </ul>
Sales and marketing	<ul style="list-style-type: none"> <li>● Continue to attend tradeshows and film festivals</li> <li>● Continue to expand the sales and distribution teams by employing one additional staff</li> <li>● Continue to advertise the movies of the Group on magazines to increase popularity</li> <li>● Continue to organise promotional campaign jointly with cinemas</li> </ul>
Development and training of human resources	<ul style="list-style-type: none"> <li>● Continue to organize training courses which are relevant to the development of the films industry</li> </ul>
Enhancement of broadcasting in cinemas and development of new business	<ul style="list-style-type: none"> <li>● Continue to negotiate with not less than three additional cinema operators in Hong Kong for investment in DV screening equipment</li> <li>● Continue to invest in DV screening equipment jointly with cinema operators</li> </ul>

# STATEMENT OF BUSINESS OBJECTIVES

## Human Resources Deployment

The headcount projections (including the executive Directors) for each of the six-month periods ending 30th June, 2005 is set out as follows:

	As at the Latest Practicable Date	As at 31st December, 2002	As at 30th June, 2003	As at 31st December, 2003	As at 30th June, 2004	As at 31st December, 2004	As at 30th June, 2005
Management	3	3	3	3	3	3	3
Distribution	2	2	3	5	7	8	9
Production	4	5	5	7	10	11	12
Finance and administration	3	6	6	6	6	7	8
Training	—	3	5	7	10	11	12
<b>Total</b>	<u>12</u>	<u>19</u>	<u>22</u>	<u>28</u>	<u>36</u>	<u>40</u>	<u>44</u>

## USE OF PROCEEDS

The net proceeds from the New Issue (on the basis that the Over-allotment Option is not exercised and after deducting related expenses) are estimated to be approximately HK\$24.0 million. The Directors presently intend that the net proceeds will be applied as follows:

	From the Latest Practicable Date to 31st December, 2002	For the six months ending 30th June, 2003	For the six months ending 31st December, 2003	For the six months ending 30th June, 2004	For the six months ending 31st December, 2004	For the six months ending 30th June, 2005	Total
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
For the enhancement of production equipment	0.7	1.5	1.5	1.8	—	—	5.5
Improvement of cast quality of movies	0.3	0.5	0.8	0.9	—	—	2.5
For sales and marketing	0.5	1.0	1.5	1.5	—	—	4.5
For the development and training of human resources ( <i>Note</i> )	0.5	0.5	1.0	1.0	—	—	3.0
For promoting the screening of the Group's movies in cinemas in Hong Kong and development of new business	1.0	0.5	1.5	1.5	—	—	4.5
<b>Total</b>	3.0	4.0	6.3	6.7	—	—	20.0

## STATEMENT OF BUSINESS OBJECTIVES

*Note:* The Directors consider that the total amount of HK\$3.0 million are estimated to be utilized as follows:

	<i>HK\$ million</i>
Recruitment of tuition staff	0.5
Setting up of training centre	1.0
Acquisition of equipment for training	1.0
Invitation of visiting lecturers	0.5
	<hr style="width: 100%;"/>
	3.0
	<hr style="width: 100%;"/>

The balance of approximately HK\$4.0 million will be used as general working capital of the Group.

The Directors consider that the net proceeds from the Placing will be sufficient to finance the Group's business plans as scheduled up to the year ending 30th June, 2004 and the amount which will be required for the year ending 30th June, 2005 is expected to be financed by internal resources of the Group.

Should the Over-allotment Option be exercised in full, the Company will receive additional net proceeds of approximately HK\$7.2 million, together with the net proceeds from the New Issue and after deducting related expenses, will amount to a total of approximately HK\$31.2 million. The Directors intend to use the additional net proceeds raised from the exercise of the Over-allotment Option as to approximately HK\$4 million for the production of the movies of the Group and as to the balance of approximately HK\$3.2 million as additional general working capital of the Group.

To the extent that the net proceeds from the New Issue are not immediately required for the above purposes, it is the present intention of the Directors that such net proceeds will be placed on short term interest bearing deposits with authorised financial institutions in Hong Kong.

The Directors believe that the Group will have sufficient funding for the implementation of the Group's business plans.

## **EXECUTIVE DIRECTORS**

**Mr. Siu Luen Fat**, aged 43, was appointed as the chairman of the board of Directors and executive Director in May 2002 and one of the founders of the Group. Mr. Siu is responsible for the overall management, strategic planning and development of the Group. Since the foundation of the Group, Mr. Siu 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' experience in management of business operations of yarn trading and dyeing business including market development, business strategic planning and business goal planning. Mr. Siu 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 Kin Fat**, aged 51, was appointed as one of the vice-chairmen of the board of Directors and executive Director in May 2002 and one of the founders of the Group. Mr. Siu Kin Fat is mainly responsible for the management of the daily operation of the Group. Since the foundation of the Group, Mr. Siu Kin Fat has participated in the production of all the movies produced by the Group. Prior to the founding of the Group in May 1997, he has more than 20 years' 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 and Mr. Siu Kuen Fat.

**Mr. Siu Kuen Fat**, aged 45, was appointed as one of the vice-chairmen of the board of Directors 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' 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 and Mr. Siu Kin Fat.

## **NON-EXECUTIVE DIRECTOR**

**Mr. Hung Kam Po**, aged 50, is a well-known movie director and actor. Mr. Hung has over 25 years of experience in the entertainment and movie industry in Hong Kong and was accredited as "The Best Actor" for "the Pickpocket (提防小手)" in the 2nd Hong Kong Film Awards and, "The Best Actor" for "The Painted Faces (七小福)" in the 8th Hong Kong Film Awards and the 33rd Asia Pacific Film Awards. In 1997, Mr. Hung took a leading role in "The Martial Law", an

American TV series for CBS Worldwide Inc. in Los Angeles, US and was selected as one of the 25 most intriguing people for the year by People Magazine in 1999, further evidencing the worldwide recognition of his success in the movie industry. Mr. Hung was appointed to the Board as non-executive Director in June 2002.

#### **INDEPENDENT NON-EXECUTIVE DIRECTORS**

**Ms. Chiu Kam Hing, Kathy**, aged 53, 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. Both Ms. Chiu and Prime Investments Holdings Limited have not engaged in any business which is in competition with the Group and Ms. Chiu has not conducted any business with the Group.

**Dr. Cheung Wai Bun, Charles, J.P.**, aged 66, 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. Dr. Cheung holds an honorary doctorate degree in business administration, a master degree in business administration and a bachelor degree of science. Dr. Cheung has over 37 years' of working experience and has held senior management positions in various industries including banking property, hotel development and investment. He is a 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 Stock Exchange. Dr. Cheung is also a director of Global Business Bank, a publicly listed bank in the Philippines. He was a former director and advisor of the Tung Wah Group of Hospitals. Dr. Cheung is a vice chairman of Guangdong Province Golf Association.

**Mr. Kan Ching Duen**, aged 43, was appointed as an independent non-executive Director in May 2002. Mr. Kan is a solicitor practicing qualified in Hong Kong. He engages his own private legal practice as the sole proprietor of a law firm in Hong Kong handling legal matters including conveyancing and property projects, civil and criminal litigation, matrimonial, probate, intellectual property and commercial matters. Mr. Kan graduated from the University of Hong Kong with a bachelor degree in social sciences and was awarded with a master degree in Chinese and Comparative Law by the City University of Hong Kong. Both Mr. Kan and his own private legal practice have no connection with the Group except for providing occasional professional legal advise to the Group.

## **Directors' remuneration**

For each of the two years ended 30th June, 2001, the aggregate annual remuneration of the executive Directors were HK\$180,000 and HK\$180,000 respectively.

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years commencing from 6th August, 2002, and will continue thereafter until terminated by not less than three months' prior notice in writing served by either party on the other. Each of the executive Directors, namely Mr. Siu, Mr. Siu Kin Fat and Mr. Siu Kuen Fat, is entitled to a basic monthly remuneration of HK\$70,000, HK\$15,000 and HK\$15,000 respectively subject to annual review. Further details of the terms of the above service contracts are set out in the paragraph headed "Particulars of service contracts" under the section headed "Further information about Directors, management and staff" in Appendix IV to this prospectus.

## **COMPANY SECRETARY AND QUALIFIED ACCOUNTANT**

**Mr. Ho Siu Man, Simon**, aged 42, is the qualified accountant and company secretary of the Company. Mr. Ho was appointed to the current position in May 2002 and had held the position of deputy group financial controller of Chen Hsong Holdings Limited and deputy group finance director of the Grande Holdings Limited as well as several years of experience in an international accounting firm. Mr. Ho holds a bachelor degree of science (in engineering) from the University of Hong Kong and a master degree of business administration from the Chinese University of Hong Kong. Mr. Ho is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants.

## **SENIOR MANAGEMENT**

**Ms. Man Ka Bo**, aged 38, is the administration director of the Group. Ms. Man is mainly responsible for the administration of the Group and she has over 15 years of experience in corporate management and administration. Ms. Man obtained a diploma in business management jointly issued by the Hong Kong Polytechnic University (previous known as the Hong Kong Polytechnic) and the Hong Kong Management Association in 1996. Ms. Man has been appointed to the current position in July 1997.

**Ms. Lo Man Ling**, aged 36, is the distribution director of the Group. Ms. Lo is in charge of the distribution and marketing departments of the Group. She has over five years of experience in the film distribution sector. Ms. Lo obtained a diploma in business management jointly issued by the Hong Kong Polytechnic University (previous known as the Hong Kong Polytechnic) and the Hong Kong Management Association in 1996. Ms. Lo has been appointed to the current position in July 1997.

**Mr. Yeung Yat Tak**, aged 38, is the chief producer of the Group. Mr. Yeung is mainly responsible for the overall control of script and production of movies for the Group. Mr. Yeung has over 10 years of experience in the filming industry engaged in various senior positions including executive producer, film director and screenplay. Mr. Yeung was a lecturer in design

## DIRECTORS, SENIOR MANAGEMENT AND STAFF

and photography of The First Institute of Arts Design from 1985 to 1987 and is currently a part-time instructor in the certificate program of film making in the School of Continuing Studies of the Chinese University of Hong Kong. Mr. Yeung is a member of the Hong Kong Film Directors Guild and a member of the Hong Kong Film Screenplay Association. Mr. Yeung has been appointed to the current position in July 1997.

**Mr. Cheung Siu Kin**, aged 34, is the executive producer of the Group. Mr. Cheung is mainly responsible for the administration of the production and post-production of movies for the Group. Mr. Cheung has over 10 years of experience in the film industry and has previously been engaged as a film director, an assistant film director and a film producer. Mr. Cheung is a member of the Hong Kong Film Directors Guild. Mr. Cheung has been appointed to the current position in June 1998.

### AUDIT COMMITTEE

The Company has established an audit committee on 22nd July 2002 with written terms of reference in compliance with Rules 5.23, 5.24 and 5.25 of the GEM Listing Rules. The primary duties of the audit committee are (a) to review the Company's annual report and accounts, half-year report and quarterly report; (b) to provide advice and comments thereon to the Board; and (c) to review and supervise the financial reporting process and internal control procedures of the Group.

The audit committee comprises Ms. Chiu Kam Hing, Kathy, Dr. Cheung Wai Bun, Charles and Mr. Kan Ching Duen who are the independent non-executive Directors. Ms. Chiu Kam Hing, Kathy is the chairperson of the audit committee.

### STAFF

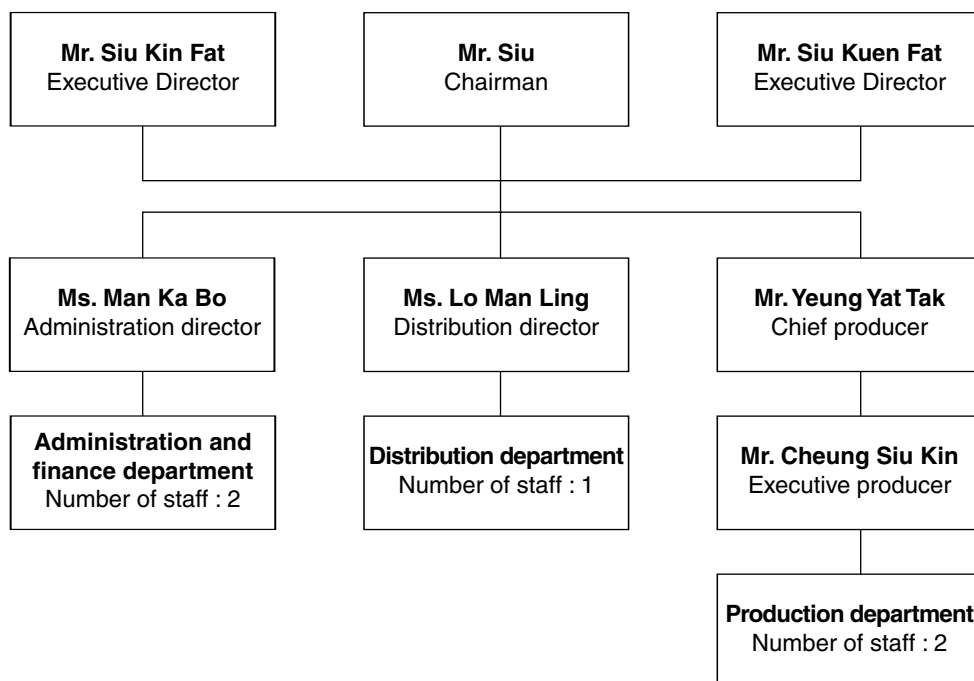
#### Overview of the staff of the Group

As at the Latest Practicable Date, the Group had employed a total of 12 staff (including the executive Directors) and are engaged in the following operations:

	<b>Total</b>
Management	3
Distribution	2
Production	4
Administration and finance	<u>3</u>
Total	<u><u>12</u></u>

# DIRECTORS, SENIOR MANAGEMENT AND STAFF

As at the Latest Practicable Date, the hierarchy of the Group's various business departments with corresponding persons-in-charge and number of staff is shown as follows:



## The Group's relationship with staff

The Group has not experienced any disruption of its operations due to labour disputes nor has it experienced any difficulties in the recruitment and retention of experienced staff in the past. The Directors consider that the Group has good relationship with its employees.

## Benefit schemes

The Group has implemented a provident fund scheme for its employees in Hong Kong in compliance with the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) (as amended from time to time) which took effect from 1st December, 2000.

Under the MPF Scheme, each of the Group and its employees should make a mandatory contribution of 5% of the relevant employee's monthly income or HK\$1,000, whichever is the less. Employees may choose to contribute on top of the mandatory contributions a specified percentage of their salaries or relevant incomes or a fixed sum as employee voluntary contributions. The Group's mandatory contributions are fully and immediately vested in favour of the employees.

## SHARE OPTION SCHEME

The Company has conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarised in the section headed "Share Option Scheme" in Appendix IV to this prospectus.

# INITIAL MANAGEMENT, SUBSTANTIAL AND SIGNIFICANT SHAREHOLDERS

## INITIAL MANAGEMENT SHAREHOLDERS

The following persons are individually and/or collectively entitled to exercise or control the exercise of 5% or more of the voting power at any general meeting of the Company and are able, as a practical matter, to direct or influence the management of the Company after completion of the Placing and the Capitalisation Issue (assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be issued pursuant to the exercise of any option which may be granted under the Share Option Scheme) are therefore regarded as initial management shareholders (as defined in the GEM Listing Rules):

Name of Shareholders	Number of Shares	Approximate percentage of shareholding
Coxwell ( <i>Note 1</i> )	200,400,000	50.1%
Mr. Siu ( <i>Note 1</i> )	200,400,000	50.1%
Siu Kin Fat ( <i>Note 1</i> )	200,400,000	50.1%
Siu Kuen Fat ( <i>Note 1</i> )	200,400,000	50.1%
Baserich ( <i>Note 2</i> )	40,800,000	10.2%
Mr. Hung ( <i>Note 2</i> )	40,800,000	10.2%
Dragon Master ( <i>Note 3</i> )	12,000,000	3.0%
Man Ka Bo ( <i>Note 3</i> )	12,000,000	3.0%
Lo Man Ling ( <i>Note 3</i> )	12,000,000	3.0%

*Notes:*

1. Coxwell is a company incorporated in BVI and whose shares are beneficially owned as to approximately 33.33%, 33.33% and 33.33% by Mr. Siu, Mr. Siu Kuen Fat and Mr. Siu Kin Fat respectively, all being executive Directors. Coxwell, Mr. Siu, Mr. Siu Kuen Fat and Mr. Siu Kin Fat are regarded as the initial management shareholders (as defined in the GEM Listing Rules). Each of the shareholders of Coxwell has undertaken to the Stock Exchange, the Company, the Sponsor and the Underwriters that he will not dispose of (or enter into any agreement to dispose of) his direct or indirect interest in the issued share capital of Coxwell during the 12-Month Lock-up Period.

2. The beneficial owners of Baserich are as follows:

Name of shareholders of Baserich	Approximate percentage of shareholding
	%
Mr. Lee Tat Chiu	43.9
Mr. Hung	34.2
Mr. Lee Tat Keung	14.6
Mr. Poon King Hei	7.3
	100.0

## INITIAL MANAGEMENT, SUBSTANTIAL AND SIGNIFICANT SHAREHOLDERS

Save for Mr. Hung, an Initial Management Shareholder, the shareholders of Baserich are independent third parties not connected with any of the Directors, chief executive of the Company, the Initial Management Shareholders or the Substantial Shareholder or any of their respective associates and none of them has been involved in the management or operation of the Group and their acquisition of the indirect interest in the Company was not funded directly or indirectly by any connected person (as defined in the GEM Listing Rules) of the Group. All of the shareholders of Baserich are independent of each other. Mr. Lee Tat Chiu, by reason of his deemed interest in Baserich, is a Significant Shareholder.

Baserich is an initial management shareholder (as defined in the GEM Listing Rules). Each of the shareholders of Baserich has undertaken to the Stock Exchange, the Company, the Sponsor and the Underwriters that he will not dispose of (or enter into any agreement to dispose made of) his direct or indirect interest in the issued share capital of Baserich during the 12-Month Lock-up Period. The undertaking of each of Mr. Lee Tat Chiu, Mr. Lee Tat Keung and Mr. Poon King Hei is made voluntarily.

3. Dragon Master is owned as to 50% by each of Ms. Man Ka Bo and Ms. Lo Man Ling, both of whom are members of the senior management of the Group. Ms. Man Ka Bo, Ms. Lo Man Ling and Dragon Master are regarded as the initial management shareholders (as defined in the GEM Listing Rules). Each of the shareholders of Dragon Master has undertaken to the Stock Exchange, the Company, the Sponsor and the Underwriters that she will not dispose of (or enter into any agreement to dispose of) her direct or indirect interest in the issued share capital of Dragon Master during the 12-Month Lock-up Period.

### SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, immediately after completion of the Placing and the Capitalisation Issue (assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be issued pursuant to the exercise of any option which may be granted under the Share Option Scheme), apart from Coxwell and Baserich, there are no other person who will be directly or indirectly interested in 10% or more of the Shares then in issue and is therefore regarded as a substantial shareholder (as defined in the GEM Listing Rules).

### SIGNIFICANT SHAREHOLDERS

So far as the Directors are aware, immediately following completion of the Placing and the Capitalisation Issue (assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be issued pursuant to the exercise of any option which may be granted under the Share Option Scheme) apart from the Initial Management Shareholders and the Substantial Shareholders referred to above, the following Shareholders will be directly or indirectly interested in 5% or more of the issued share capital of the Company:

Name of Shareholder	Number of Shares	Approximate percentage of shareholding
Lee Tat Chiu ( <i>Note 1</i> )	40,800,000	10.2%
Amerose ( <i>Note 2</i> )	33,200,000	8.3%
Cheng Wing Ming ( <i>Note 2</i> )	33,200,000	8.3%

# INITIAL MANAGEMENT, SUBSTANTIAL AND SIGNIFICANT SHAREHOLDERS

Note:

- (1) Mr. Lee Tat Chiu is interested in approximately 43.9% of the issued share capital of Baserich.
- (2) The beneficial owners of Amerose are as follows:

Name of shareholders of Amerose	Approximate percentage of shareholding %
Mr. Cheng Wing Ming	43.2
Ms. Siu Mei Shuen	18.5
Mr. Yim Kwok Leung, Kenneth	15.4
Mr. Chan Yip Fai	7.4
Mr. Or Tak Fai	6.2
Ms. Siu Yin Ping	6.2
Mr. Tsang Kok Ping	3.1
	<hr/>
	100.0

The shareholders of Amerose are (i) independent third parties not connected with any of the Directors, chief executive of the Company, the Initial Management Shareholders or the Substantial Shareholders or any of their respective associates and none of them has been involved in the management or operation of the Group and their acquisition of the indirect interest in the Company was not funded directly or indirectly by any connected person (as defined in the GEM Listing Rules) of the Group (save for Ms. Siu Mei Suen who is the sister of Mr. Siu and Ms. Siu Yin Ping who is the wife of Mr. Cheng Wing Ming) and (ii) independent of each other (save for Ms. Siu Yin Ping who is the wife of Mr. Cheng Wing Ming).

Each of Amerose and Mr. Cheng Wing Ming is a significant shareholder (as defined in the GEM Listing Rules).

Each of the shareholders of Amerose has undertaken to the Stock Exchange, the Company, the Sponsor and the Underwriters that he/she will not dispose of (or enter into any agreement to dispose of) his/her direct or indirect interest in the issued share capital of Amerose during the 6-Month Lock-up Period. The undertaking of each of Ms. Siu Mei Shuen, Mr. Yim Kwok Leung, Kenneth, Mr. Chan Yip Fai, Mr. Or Tak Fai, Ms. Siu Yin Ping and Mr. Tsang Kok Ping is made voluntarily.

## UNDERTAKINGS

Each of the Initial Management Shareholders has undertaken to the Company, the Stock Exchange, the Sponsor and the Underwriters and each of them that at any time during the 12-Month Lock-up Period:

- (i) he/she/it will place in escrow with an escrow agent acceptable to the Stock Exchange and approved by the Sponsor (for itself and on behalf of the Underwriters) his/her/its Relevant Securities on terms acceptable to the Stock Exchange and the Sponsor;

## INITIAL MANAGEMENT, SUBSTANTIAL AND SIGNIFICANT SHAREHOLDERS

- (ii) he/she/it will not and shall procure that the registered holder(s) shall not, save as provided in Rule 13.18 of the GEM Listing Rules and with the prior written consent of the Sponsor, sell, transfer or otherwise dispose of or create any right (or enter into any agreement to do any of the above) in respect of any of his/her/its direct or indirect interest in the Relevant Securities; and
- (iii) (A) in the event that he/she/it pledges or charges any direct or indirect interest in the Relevant Securities under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules, he/she/it must inform the Company and the Sponsor (for itself and on behalf of the Underwriters) immediately in writing of such pledge or charge together with the details as specified in Rules 17.43(1) to (4) of the GEM Listing Rules; and (B) having pledged or charged any of his/her/its interest in the Relevant Securities, he/she/it must inform the Company and the Sponsor (for itself and on behalf of the Underwriters) immediately in writing in the event that he/she/it becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of the Relevant Securities affected. Upon receiving such information in writing, the Company will, as soon as practicable, make a public disclosure by way of a press announcement.

Each of the Significant Shareholders has undertaken to the Company, the Stock Exchange, the Sponsor and the Underwriters and each of them that at any time during the 6-Month Lock-up Period:

- (i) he/she/it will place in escrow with an escrow agent acceptable to the Stock Exchange and approved by the Sponsor (for itself and on behalf of the Underwriters) his/her/its Relevant Securities;
- (ii) he/she/it will not and shall procure that the registered holder(s) shall not, save as provided in Rule 13.18 of the GEM Listing Rules and with the prior written consent of the Sponsor, sell, transfer or otherwise dispose of or create any right (or enter into any agreement to do any of the above) in respect of any of his/her/its direct or indirect interest in the Relevant Securities; and
- (iii) (A) in the event that he/she/it pledges or charges any direct or indirect interest in the Relevant Securities under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules, he/she/it must inform the Company and the Sponsor (for itself and on behalf of the Underwriters) immediately in writing of such pledge or charge together with the details as specified in Rules 17.43(1) to (4) of the GEM Listing Rules; and (B) having pledged or charged any of his/her/its interest in the Relevant Securities, he/she/it must inform the Company and the Sponsor (for itself and on behalf of the Underwriters) immediately in writing in the event that he/she/it becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of the Relevant Securities affected. Upon receiving such information in writing, the Company will, as soon as practicable, make a public disclosure by way of a press announcement.

## SHARE CAPITAL

The share capital of the Company, issued or to be issued, fully paid or credited as fully paid, immediately upon completion of the Placing and the Capitalisation Issue, will be as follows:

<i>Authorised share capital:</i>	<i>HK\$</i>
<u>3,000,000,000</u> Shares	<u>30,000,000</u>
<i>Issued Shares:</i>	
10,000,000 Shares in issue as at the date of this prospectus	100,000
<i>Shares to be issued:</i>	
330,000,000 Shares to be issued pursuant to the Capitalisation Issue	3,300,000
<u>60,000,000</u> Shares to be issued pursuant to the New Issue	<u>600,000</u>
<i>Total Shares in issue and to be issued:</i>	
<u>400,000,000</u>	<u>4,000,000</u>

The minimum level of public float to be maintained by the Company at the time of the listing of the Shares on GEM and all times thereafter under the GEM Listing Rules is 25% of the share capital of the Company in issue from time to time.

*Notes:*

### 1. Assumptions

The above table assumes that the Placing and the Capitalisation Issue become unconditional. It does not take into account of (i) the allotment and issue of any Over-allotment Shares which may be allotted and issued upon the exercise of the Over-allotment Option, (ii) the allotment and issue of any Shares which may be issued upon the exercise of the options granted under the Share Option Scheme, or (iii) any Shares which may be allotted and issued under the general mandate to allot and issue Shares (see Note 4 below), or which may be repurchased by the Company pursuant to the share repurchase mandate (see Note 5 below).

### 2. Ranking

The Placing Shares will rank *pari passu* in all respects with all Shares in issue or to be issued as mentioned in this prospectus save for the entitlement under the Capitalisation Issue, and will qualify for all dividends and other distributions declared, made or paid on the Shares.

### 3. Share Option Scheme

The Company has conditionally adopted the Share Option Scheme. A summary of the main terms of the Share Option Scheme is set out in the paragraph headed “Share Option Scheme” in Appendix IV to this prospectus.

Under the Share Option Scheme, employees, executives or officers of the Company or any of its subsidiaries (including executive and non-executive directors of the Company or any of its subsidiaries) and any suppliers, consultants or advisers who will provide or have provided services to the Company or any of its subsidiaries may be granted options which entitle them to subscribe for Shares representing up to a maximum, when aggregated with any securities subject to any other share option scheme(s) of the Company, of 30% of the issued capital of the Company from time to time (excluding Shares which may be issued upon the exercise of options granted under the Share Option Scheme).

### 4. General mandate to allot and issue Shares

The Directors have been granted a general mandate to allot and issue Shares in the share capital of the Company with a total nominal value of not more than the sum of:

- (a) 20% of the total nominal amount of the share capital of the Company in issue immediately following completion of the Placing and the Capitalisation Issue; and
- (b) the total amount of the share capital of the Company repurchased by the Company under the mandate as mentioned in Note 5 below.

The Directors may, in addition to the Shares which they are authorised to issue under the mandate, allot and issue the Shares under a rights issue, scrip dividend scheme or similar arrangement or upon the exercise of options granted under the Share Option Scheme.

This mandate will expire:

- (a) at the end of the Company’s next annual general meeting; or
- (b) at the end of the period within which the Company is required by the Cayman Islands law or its articles of association to hold its next annual general meeting; or
- (c) when varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

Further information on this general mandate is contained in the paragraph headed “Written resolutions of the sole Shareholder passed on 22nd July, 2002” under the section headed “Further information about the Company and its subsidiaries” in Appendix IV to this prospectus.

### 5. General mandate to repurchase Shares

The Directors have been granted a general mandate to exercise all the powers of the Company to repurchase Shares with a total nominal value of not more than 10% of the total nominal amount of the share capital of the Company in issue immediately following completion of the Placing and the Capitalisation Issue.

## SHARE CAPITAL

This mandate only relates to repurchases made on the Stock Exchange or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with the GEM Listing Rules.

This mandate will expire:

- (a) at the end of the Company's next annual general meeting; or
- (b) at the end of the period within which the Company is required by the Cayman Islands law or its articles of association to hold its next annual general meeting; or
- (c) when varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

A summary of the relevant GEM Listing Rules is set out in the paragraph headed "Repurchase by the Company of its own securities" under the section headed "Further information about the Company and its subsidiaries" in Appendix IV to this prospectus.

## **INDEBTEDNESS**

### **Borrowings**

As at the close of business on 31st May, 2002, being the Latest Practicable Date for the purpose of this indebtedness statement prior to the printing of this prospectus, the Group had aggregate outstanding borrowings of approximately HK\$28,788,000. It comprised of a bank overdraft facility of approximately HK\$495,000 and advances from a Director of approximately HK\$28,293,000. On 22nd July, 2002, a sum of HK\$17,550,000, being part of the advances due to a Director, was capitalised by the allotment and issue of shares in the capital of B & S Group to Coxwell.

The Group's current aggregate banking facilities of HK\$0.5 million are secured by personal guarantees given by certain Directors and two related companies which are either beneficially owned by a Director or have common Directors.

### **Contingent liabilities**

As at 31st May, 2002, the Group had no material contingent liability.

### **Disclaimer**

Save as aforesaid or as otherwise disclosed herein and apart from intra-group liabilities, none of the companies in the Group had outstanding at the close of business on 31st May, 2002, any mortgages, charges, debentures or other loan capital or bank overdrafts, loans or other similar indebtedness, finance lease commitments, hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities.

The Directors have confirmed that, save as disclosed above, there has not been any material change in the indebtedness and contingent liabilities of the Group since 31st May, 2002.

## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

### **Financial resources**

The Group generally finances its operation with internally generated resources, advances from a Director and a bank overdraft facility provided by its banker in Hong Kong. The Group expects to fund its foreseeable expenditure with the net proceeds from the New Issue and internally generated funds.

### **Net current liabilities**

As at 31st May, 2002, the Group had total current assets of approximately HK\$15,900,000. The current assets comprised of cash and bank balances of approximately HK\$75,000; accounts receivable of approximately HK\$407,000; prepayments, deposits and other receivables of approximately HK\$6,709,000, film rights and films in progress of approximately HK\$8,698,000

and tax recoverable of approximately HK\$11,000. The current liabilities comprised of accrued liabilities and other payables of approximately HK\$1,860,000, deposits received of approximately HK\$1,352,000, accounts payable of approximately HK\$20,000, amount due to a Director of approximately HK\$28,293,000 and bank overdrafts of approximately HK\$495,000.

### **Borrowings and bank facilities**

As at 31st May, 2002, the Group had banking facilities of HK\$500,000, of which HK\$495,000 had been utilised.

### **Capital Commitment**

As at 31st May, 2002, the Group had no significant capital commitments.

### **Foreign exchange exposure**

Most of the income of the Group are denominated in Hong Kong dollars. The Group has not experienced any material difficulty or effect on its operations or liquidity as a result of fluctuations in currency exchange rates during the period under review. The Group has not implemented or entered into any type of instruments or arrangements to hedge against currency exchange fluctuations for the period under review. As at 31st May, 2002, the Group did not have outstanding hedging instruments.

### **Directors' opinion on the working capital**

The Directors are of the opinion that, after taking into consideration the existing financial resources available to the Group including internally generated funds and the net proceeds of the New Issue, the Group has sufficient resources to meet its foreseeable capital expenditure and working capital requirement.

# FINANCIAL INFORMATION

## TRADING RECORD

The following table is a summary of the combined audited results of the Group for the two years ended 30th June, 2001 and the six months ended 31st December, 2001. The summary is prepared on the assumption that the current structure of the Group had been in existence throughout the period under review and should be read in conjunction with the accountants' report set out in Appendix I to this prospectus.

	<b>Year ended 30th June,</b>		<b>Six months ended 31st December,</b>
	<b>2000</b>	<b>2001</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover ( <i>Note 1</i> )	23,472	28,267	12,711
Cost of sales	(19,463)	(21,969)	(9,641)
Gross profit	4,009	6,298	3,070
Other revenue	2	19	1
Selling and distribution costs	(1,830)	(1,362)	(585)
Administrative expenses	(4,148)	(4,011)	(1,797)
Other operating expenses	(995)	—	—
Profit/(loss) from operating activities	(2,962)	944	689
Finance costs	(55)	(52)	(24)
Profit/(loss) before tax	(3,017)	892	665
Tax	(70)	(45)	(18)
Net profit/(loss) attributable to Shareholders	(3,087)	847	647
Dividend	—	—	—
Earnings/(loss) per Share - basic ( <i>Note 2</i> )	(0.91) cent	0.25 cent	0.19 cent

*Notes:*

1. Turnover represents the net invoiced value of goods sold and gross receipt from the licensing and sub-licensing of film rights.
2. The calculation of the earnings/(loss) per Share is based on the net profit/(loss) for each of the two years ended 30th June, 2001 and the six months ended 31st December, 2001 and on the assumption that 340,000,000 Shares had been in issue throughout the two years ended 30th June, 2001 and the six months ended 31st December, 2001, comprising 10,000,000 Shares in issue as at the date of this prospectus and 330,000,000 Shares to be issued pursuant to the Capitalisation Issue.

**WAIVER FROM COMPLIANCE WITH THE GEM LISTING RULES AND THE COMPANIES ORDINANCE**

*The Companies Ordinance*

According to paragraph 27 of Part I of the Third Schedule to the Companies Ordinance (“Paragraph 27”) as amended by the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (L.N. 76 of 2001) (“Exemption Notice”), the Company is required to include in this prospectus a statement as to the gross trading income or sales turnover (as may be appropriate) of the Group during the two financial years immediately preceding the issue of this prospectus.

According to paragraph 31 of Part II of the Third Schedule to the Companies Ordinance (“Paragraph 31”) as amended by the Exemption Notice, the Company is required to include on this prospectus a report by the auditors and reporting accountants of the Company with respect to the financial results of the Group for each of the two financial years immediately preceding the issue of this prospectus.

The Company has applied to the SFC for a certificate of exemption from strict compliance with Paragraph 27 and Paragraph 31 on the ground that full compliance with the same would be unduly burdensome on the Company. The SFC has granted a certificate of exemption in relation to Paragraph 27 and Paragraph 31 so that the Group is only required to include in this prospectus its trading record, financial results and information covering the period for the two financial years ended 30th June, 2001 and the six months ended 31st December, 2001.

*The GEM Listing Rules*

According to Rule 7.03(1) of the GEM Listing Rules, it is required that in the case of a new applicant the accountants’ report must include the results of the issuer or, if the issuer is a holding company, the consolidated results of the issuer and its subsidiaries covering at least the two financial years immediately preceding the issue of the listing document.

Rule 11.10 of the GEM Listing Rules requires that a new applicant must have an accountants’ report prepared in accordance with Chapter 7 of the GEM Listing Rules covering at least two financial years immediately preceding the issue of the listing document.

According to Rule 11.11 of the GEM Listing Rules, the latest financial period reported on by the reporting accountants must not have ended more than six months before the date of this prospectus. The latest financial period reported on the accountants’ report set out in Appendix I to this prospectus is for the six months ended 31st December, 2001, which is more than six months from the date of this prospectus.

## FINANCIAL INFORMATION

The Company has applied for a waiver from strict compliance with Rules 7.03(1), 11.10 and 11.11 of the GEM Listing Rules from the Stock Exchange. The Stock Exchange has granted the waivers such that the accountants' report set out in Appendix I to this prospectus is only required to cover the period for the two financial years ended 30th June, 2001 and the six months ended 31st December, 2001.

The Directors confirm that they have performed sufficient due diligence on the Group to ensure that up to the date of this prospectus and save as disclosed in this prospectus, there has been no material adverse change in the financial position of the Group since 31st December, 2001 and they are not aware of any event which would materially affect the information shown in the accountants' report set out in Appendix I to this prospectus.

### MANAGEMENT DISCUSSION AND ANALYSIS

	Year ended 30th June, 2000			Year ended 30th June, 2001			Six months ended 31st December, 2001		
<i>Number of movies</i>	<i>Gross profit/ (loss) margin</i>	<i>HK\$'000</i>	<i>Number of movies</i>	<i>Gross profit/ (loss) margin</i>	<i>HK\$'000</i>	<i>Number of movies</i>	<i>Gross profit/ (loss) margin</i>	<i>HK\$'000</i>	
Turnover									
Licensing of film rights									
- 35mm format									
movies	8	9,502	(6.2)	5	1,100	3.7	—	—	
- DV format									
movies	31	11,138	27.2	40	12,014	34.3	46	8,802	
Sub-licensing of									
film rights		—	—	550	13,900	12.5	150	3,900	
Sale of videos and									
VCDs		<u>2,832</u>	55.5		<u>1,253</u>	31.6		<u>9</u>	
		<u>23,472</u>	17.1		<u>28,267</u>	22.3		<u>12,711</u>	

The following is a discussion of the combined results of the Group for each of the two years ended 30th June, 2001 and the six months ended 31st December, 2001 based on the presentation set out in the accountants' report, the text of which is set out in Appendix I to this prospectus.

#### Year ended 30th June, 2000

For the year ended 30th June, 2000, the turnover of the Group amounted to approximately HK\$23.5 million.

Cost of sales for the year ended 30th June, 2000 amounted to approximately HK\$19.5 million, primarily represented by the cost of production of the movies of the Group.

## FINANCIAL INFORMATION

Gross profit margin for the year ended 30th June, 2000 was approximately 17.1% after a provision for film rights of HK\$1,563,000 on 35mm format movies was made in the same period.

For the year ended 30th June, 2000, the Group incurred a net loss of approximately HK\$3.1 million which was mainly attributable to provisions made for film rights of HK\$1,563,000 on 35mm format movies and a provision for bad and doubtful debt of approximately HK\$995,000 on sale of VCDs. In view of the piracy activities in Hong Kong, the customer of the Group could not realise the amount from sale of the Group's VCDs to settle the debt, therefore bad debt and doubtful debts resulted. Thereafter, the Group decided to shift its effort from the sale of VCDs to movie production.

### **Year ended 30th June, 2001**

For the year ended 30th June, 2001, the turnover of the Group was approximately HK\$28.3 million that represented an increase of approximately 20.4% over the previous financial year. The increase was mainly due to the Group's effort in the promotion of the movies produced by the Group and sub-licensed movies acquired from overseas producers in Hong Kong to its customers as well as the increase in the popularity of the Group's movies. The revenue from licensing of copyright/film rights of the Group's 35mm format movies was decreased by HK\$8,402,000 while the revenue from licensing of copyright/film rights of the Group's DV format movies and sub-licencing of film rights has increased by HK\$876,000 and HK\$13,900,000, respectively as compared to the year ended 30th June, 2000.

For the year ended 30th June, 2001, the gross profit margin of the Group was approximately 22.3%, representing an increase of approximately 5.2% as compared to the year ended 30th June, 2000. The increase in gross profit margin for DV format movies from approximately 27.2% to approximately 34.3% for the year ended 30th June, 2001 was due to higher quality movies with better casting, which in turn generated higher revenue. The decrease in gross profit margin for the sale of videos and VCDs was resulted from the keen competition in the VCD market. The increase in the total gross profit margin was mainly due to the shift of movie production from 35mm format, with a gross profit margin of 3.7% to DV format with a gross profit margin of 34.3%.

Administrative expenses of approximately HK\$4 million mainly comprised of administrative fee paid to Lightal Limited of approximately HK\$2.1 million, representing a decrease of approximately 3% over the previous year. Selling and distribution costs decreased as lease of cinema changes from on-going lease term to short term on need basis for film exhibition purpose in Hong Kong.

The trade receivable of approximately HK\$995,000 against which specific provision for bad and doubtful debt of the same amount has been made in the year ended 30th June, 2000 and has been written off in the year ended 30th June, 2001.

## FINANCIAL INFORMATION

For the year ended 30th June, 2001, the Group attained a net profit attributable to the Shareholders of approximately HK\$847,000. The Group was able to achieve a net profit as compared to a net loss in the last corresponding year as the turnover and gross profit margin have both increased together with a reduction in the selling and distribution costs and the reason for such change has been stated as above.

### **Six months ended 31st December, 2001**

For the six months ended 31st December, 2001, the turnover of the Group was approximately HK\$12.7 million, representing a decrease of approximately 10% of the pro-rata turnover of the Group for the year ended 30th June, 2001. During this period, the Group focused on the production of movies and the distribution of the copyright/film rights thereof, causing the sub-licensing fee to decrease by approximately HK\$10.0 million. In addition, the Directors considered that the piracy activities in Hong Kong had an adverse impact on the sales of videos and VCDs.

For the six months ended 31st December, 2001, the gross profit margin of the Group was approximately 24.2%, representing an increase of approximately 1.9% as compared to the year ended 30th June, 2001. The decrease in gross profit margin of approximately 4% for DV format movies was attributed by higher sub-contracting cost paid for higher quality movies produced in order to promote the image of the Group. The significant drop in gross profit margin for sale of videos and VCDs was resulted from shifting of effort to movies production in view of keen competition in respective market.

Administrative expenses of approximately HK\$1.8 million mainly comprised of administrative fee paid to Lightal Limited of approximately HK\$1.1 million, representing a decrease of approximately 10.4% over the previous corresponding period. Such decrease was mainly due to more effective cost control.

For the six months ended 31st December, 2001, the Group attained a net profit attributable to the Shareholders of approximately HK\$647,000, representing an increase of approximately 53% over the previous year on an annualised basis. Such increase was attributable to a reduction in expenses due to effective cost control.

### **Taxation**

The principal tax liability of the Group is Hong Kong profits tax. Provision has been made for Hong Kong profits tax on the assessable income of the companies comprising the Group at the rates prevailing during the two years ended 30th June, 2001 and the six months ended 31st December, 2001.

For the two years ended 30th June, 2001 and the six months ended 31st December, 2001, the Group's effective tax rates were approximately -2.3%, 5.0% and 2.7% respectively. The low effective tax rates was due to approximately HK\$15.4 million, HK\$18.8 million and HK\$18.1 million accumulated adjusted tax losses brought forward from a group company to offset the assessable profit generated throughout the periods.

## FINANCIAL INFORMATION

### ADJUSTED NET TANGIBLE ASSETS

The following statement of the adjusted combined net tangible assets of the Group is based on the audited combined net tangible assets of the Group as at 31st December, 2001 as shown in the accountants' report, the text of which is set out in Appendix I to this prospectus and adjusted as follows:

	<i>HK\$'000</i>
Audited combined net liabilities of the Group as at 31st December, 2001	(16,942)
Unaudited combined profit after tax of the Group for the five months ended 31st May, 2002, based on its unaudited management accounts	1,599
Capitalisation of HK\$17,550,000 due to a Director	17,550
Estimated net proceeds of the New Issue (based on 60,000,000 New Shares at the Placing Price after deduction of underwriting fees and estimated expenses payable by the Company in connection with the Placing)	<u>24,000</u>
Adjusted net tangible assets	<u><u>26,207</u></u>
Adjusted net tangible asset value per Share ( <i>cents</i> )	<u><u>6.55 cents</u></u>

*Note:* The adjusted combined net tangible asset value per Share has been arrived at after the adjustment referred to above and on the basis of 400,000,000 Shares in issue or to be issued as mentioned under the section headed "Share Capital" of this prospectus, but takes no account of any Over-allotment Shares which may be issued upon the exercises of the Over-allotment Option or any Shares which may fall to be issued pursuant to the exercise of options granted under the Share Option Scheme or which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in the paragraph headed "Written resolutions of the sole Shareholder passed on 22nd July, 2002" in Appendix IV to this prospectus.

### RULES 17.15 TO 17.21 OF THE GEM LISTING RULES

The Directors confirm that they are not aware of any circumstances which would give rise to a disclosure obligation under Rules 17.15 to 17.21 of the GEM Listing Rules.

## **PROPERTY INTERESTS**

### **Property interests rented in Hong Kong**

The Group leases the property located at 7th Floor, Cheong Tai Factory Building, 16 Tai Yau Street, San Po Kong, Kowloon, Hong Kong as its head office. The property is leased to the Group from Lightal Limited, a company which is wholly owned by Mr. Siu.

The property interests of the Group have been valued by Vigers Hong Kong Limited, an independent property valuer, at no commercial value as at 31st May, 2002. A copy of its letter, summary of values and an extract of valuation certificate are set out in Appendix IIA to this prospectus.

## **DIVIDEND**

No dividend had been declared for the two years ended 30th June 2001 and the six months ended 31st December 2001 and the Directors do not intend to distribute any dividend before the listing of the Shares on GEM.

The Company does not anticipate paying dividends in the foreseeable future. The Company anticipated that all earnings in the foreseeable future will be retained to finance the continuing development of its business. However, future dividends, if any, will be declared or paid at the discretion of the Board and will depend upon, among other things, the Company's operations, capital requirements and surplus, general financial condition, contractual restrictions and such other factors as the Board may deem relevant.

## **DISTRIBUTABLE RESERVES**

As at 31st December 2001, the Company had not been incorporated and therefore, there was no reserve available for distribution to the Shareholders on that date.

## **TAX AND ESTATE DUTY**

The Directors confirm that there is no material tax and estate duty liabilities arising under the Reorganisation as described under the paragraph headed "Corporate reorganisation" under the section headed "Further information about the Company and its subsidiaries" in Appendix IV to this prospectus.

## **NO MATERIAL ADVERSE CHANGE**

The Directors confirm that since 31st December, 2001 (being the date to which the latest audited combined financial statements of the Group were made up), there has been no material adverse change in the financial or trading position or prospects of the Group.

## SPONSOR'S INTEREST

### SPONSOR'S INTEREST IN THE COMPANY

Neither the Sponsor nor its associates expect to have accrued any material benefits as a result of the successful outcome of the Placing, other than the following:

1. for the purpose of taking up the underwriting obligations under the Underwriting Agreement;
2. by way of underwriting commissions and brokerage to be paid to the Sponsor as one of the Underwriters to the Placing;
3. by way of advisory and documentation fees to be paid to the Sponsor as sponsor of the Placing;
4. by a sponsor agreement between the Sponsor and the Company on 29th July, 2002 in connection with services to be rendered by the Sponsor pursuant to Rules 6.01 and 17.81 of the GEM Listing Rules upon the listing of the Shares on GEM;
5. certain associates of the Sponsor, whose ordinary business involves trading and dealing in securities, may involve in the trading of and dealing in the securities of the Company; and
6. certain associates of the Sponsor may purchase or sell securities of the Company for investment purposes.

For the purpose of Rule 6.36 of the GEM Listing Rules, the Sponsor confirms that, save as disclosed above:

1. neither itself nor its associates, have or may, as a result of the listing or transaction, have any interest in any class of securities of the Company, or any other company within the Group (including options or rights to subscribe such securities);
2. no director or employee of the Sponsor who is involved in providing advice to the Company has or may, as a result of the listing or transaction, have any interest in any class of securities of the Company or any other company within the Group (including options or right to subscribe such securities); and
3. no director or employee of the Sponsor has a directorship in the Company or any other company within the Group.

**LEAD MANAGER**

Shenyin Wanguo Capital (H.K.) Limited

**UNDERWRITERS**

Shenyin Wanguo Capital (H.K.) Limited  
Taiwan Concord Capital Securities (Hong Kong) Limited  
CSC Securities (HK) Limited  
Grand Cathay Securities (Hong Kong) Limited  
Phoenix Capital Securities Limited

**UNDERWRITING ARRANGEMENTS AND EXPENSES****Underwriting Agreement**

Pursuant to the Underwriting Agreement, the Company and the Vendor are offering the Placing Shares pursuant to the Placing.

Subject to, among other conditions, the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus being granted by the GEM Listing Committee on or before 29th August, 2002 (or such later date as the Lead Manager on behalf of the Underwriters may agree in writing with the Company), the Underwriters have severally agreed to subscribe or purchase, or procure subscribers to subscribe or purchasers to purchase, for the Placing Shares.

**Grounds for termination**

The Lead Manager (on behalf of the Underwriters) may at any time prior to 11:00 a.m. on the second business day immediately preceding the Listing Date give written notice to the Company to terminate the Underwriting Agreement upon occurrence of the following events prior to such time:

- (a) there develops, occurs, exists or comes into force:
  - (i) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority of any relevant jurisdiction or any other similar event; or
  - (ii) any event, or series of events, beyond the reasonable control of the Underwriters (including, without limitation acts of Government, strikes, lock-outs, fire, explosion, flooding, civil commotion, acts of war or acts of God or accident) which in the sole opinion of the Lead Manager have or likely to have the effect of making any material part of the Underwriting Agreement incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Placing or pursuant to the underwriting of the Underwriting Agreement; or

## UNDERWRITING

- (iii) any change (whether or not permanent) in, or any event or series of events, resulting in any material change (whether or not permanent) in local, national, international, financial, military, industrial, economic, currency, stock market or political conditions in Hong Kong, the Cayman Islands, the PRC or any other relevant jurisdiction; or
- (iv) any material change (whether or not permanent) in the conditions of local, national, international equity securities or other financial markets; or
- (v) the imposition of any moratorium, suspension or restriction on trading in securities generally on GEM (whether due to exceptional financial circumstances or otherwise); or
- (vi) any material and adverse change or development involving a prospective change in taxation or exchange control (or implementation of any exchange control) in Hong Kong, the Cayman Islands, the PRC or any other jurisdiction; or
- (vii) there is any material and adverse change or prospective material and adverse change to the business or in the financial or trading position or prospects of the Group; or
- (viii) any litigation or claim of material importance of any third party being threatened or instigated against any member of the Group,

(PROVIDED THAT for the purpose of construing the foregoing, a change in the system under the value of the Hong Kong currency is linked to that of the currency of the US or a devaluation of RMB against any foreign currencies shall be taken as an event resulting in a change in currency conditions; and any normal market fluctuations shall not be construed as events or series of events affecting market conditions referred to above)

which, in the reasonable opinion of the Lead Manager (for itself and on behalf of the Underwriters):

- (i) material and adversely affects or will, or is likely to materially and adversely affect the business, financial or other conditions or prospects of the Company taken as a whole; or
- (ii) has or will have or is likely to have a material and adverse effect on the success of the Placing or the level of Shares being applied for or accepted or the distribution of Shares; or
- (iii) makes it inadvisable or inexpedient to proceed with the Placing; or

(b) there comes to the knowledge of any of the Underwriters any breach of any of the Warranties (as defined in the Underwriting Agreement) or of any other provisions of the Underwriting Agreement by any of the parties thereto (save and except the Sponsor, the Lead Manager and the Underwriters), or any matter which would constitute a breach of such Warranties if they were repeated or which gives rise to a liability on the part of the persons giving such Warranties or any of the Underwriters has cause to believe that any such breach or matter has occurred.

### **Undertaking**

Each of the Initial Management Shareholders and the Significant Shareholders has given non-disposal undertakings to the Company, the Sponsor (in its capacity as sponsor of the Placing), the Underwriters and the Stock Exchange, details of which are set out in the section headed “Initial management, substantial and significant shareholders” of this prospectus.

### **Commission and expenses**

The Underwriters will receive a commission of 4.5 per cent. of the Placing Price per Placing Share, out of which any sub-underwriting commissions and selling concessions will be paid. The Sponsor will also receive a financial advisory and documentation fee relating to the Placing. Such commissions, selling concessions, documentation fees and expenses, GEM listing fees, legal and other professional fees, Stock Exchange trading fee, SFC transaction levy, printing and other expenses relating to the Placing, are estimated to be approximately HK\$10.0 million in aggregate and will be payable as to approximately HK\$6.0 million by the Company and HK\$4.0 million by the Vendor respectively.

### **Underwriters’ interests in the Company**

Save for the obligations of the Underwriters under the Underwriting Agreement, none of the Underwriters have any shareholding interests in the Group nor has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any shares in any member of the Group nor any interest in the Placing.

# STRUCTURE OF THE PLACING

## PRICE PAYABLE

The Placing Price is HK\$0.50 per Placing Share plus 1% brokerage, a 0.007% SFC transaction levy and a 0.005% Stock Exchange trading fee, constituting a total of HK\$2,020.24 per board lot of 4,000 Shares is payable upon application.

## THE PLACING

The Placing comprises (i) 60,000,000 New Shares offered by the Company for subscription and (ii) 40,000,000 Sale Shares offered by the Vendor, which in aggregate represent 25% of the enlarged issued share capital of the Company immediately following completion of the Placing and the Capitalisation Issue (assuming the Over-allotment Option is not exercised). The Placing is fully underwritten by the Underwriters.

Pursuant to the Placing, the Underwriters or selling agents nominated by them, on behalf of the Company and/or the Vendor, will conditionally place the Placing Shares at the Placing Price. The Placing Shares are to be placed with selected professional, institutional, individual and other investors. Professional and institutional investors generally include brokers, dealers and companies (including fund managers) whose ordinary course of business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

The Placing is subject to the conditions as stated in the paragraph headed “Conditions of the Placing” below.

## Allocation

Allocation of the Placing Shares to professional, institutional, individual and other investors will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to acquire further Shares and/or hold or sell its Shares after the listing of the Shares on GEM. Such allocation is generally intended to result in a distribution of the Placing Shares on the basis which would lead to the establishment of a solid professional, institutional and individual shareholder base for the benefit of the Company and its Shareholder as a whole.

## Over-allotment Option

In connection with the Placing, the Company has granted to the Underwriters the Over-allotment Option which is exercisable by the Lead Manager (on behalf of the Underwriters) at any time and from time to time within 30 days from the date of this prospectus or, if that day is not a business day, the business day immediately preceding the said thirtieth day. Pursuant to the Over-allotment Option, the Company may be required to allot and issue at the Placing Price up to an aggregate of 15,000,000 additional Shares, representing 15% of the Placing

## **STRUCTURE OF THE PLACING**

Shares initially available under the Placing, solely to cover over-allocations, if any, to professional, institutional, individual and other investors under the Placing. In order to facilitate the settlement of such over-allocations, the Lead Manager may borrow up to an aggregate of 15,000,000 Shares from Coxwell, equivalent to the maximum number of Shares to be offered on a full exercise of the Over-allotment Option, pursuant to the Stock Borrowing Agreement entered into between the Lead Manager and Coxwell. Such stock borrowing arrangement with the Lead Manager is exempted from strict compliance with Rule 13.16 of the GEM Listing Rules which restricts the disposal of Shares by Coxwell during the 12-Month Lock-up Period pursuant to Rule 13.15(5)(a) of the GEM Listing Rules on the following conditions:

1. the stock borrowing arrangement is for the sole purpose of covering the over-allocation prior to the exercise of the Over-allotment Option;
2. the maximum number of Shares to be borrowed from Coxwell is limited to the maximum number of Shares that may be issued upon full exercise of the Over-allotment Option; and
3. the same number of Shares borrowed is returned to Coxwell and deposited with the escrow agent within three business days after the last day on which the Over-allotment Option may be exercised or, if earlier, the date on which the Over-allotment Option is exercised in full.

The Lead Manager may also cover such over-allocations by, among other means, purchasing Shares in the secondary market, exercise of the Over-allotment Option, or by a combination of purchases in the secondary market and exercise of the Over-allotment Option. Any such secondary market purchases will be made in compliance with all applicable laws, rules and regulations. If the Over-allotment Option is exercised in full, the Placing Shares will represent approximately 27.7% of the enlarged issued share capital of the Company immediately after completion of the Placing and the exercise of the Over-allotment Option. An announcement will then be made on the GEM website, in the event that the Over-allotment Option is exercised.

### **TRANSFER OF SALE SHARES**

All transfer of the Sale Shares to the successful applicants (or their designated person(s)) will be effected on the Company's principal register of members in the Cayman Islands. An indication of interest in the Placing Shares shall constitute an irrevocable instruction by the applicant(s) that the transfer of all the Sale Shares in respect of which the relevant application is accepted shall be effected on the Company's principal register of members in the Cayman Islands to be followed by a removal of the Sale Shares to the Company's Hong Kong branch register of members prior to the issue of share certificates.

# STRUCTURE OF THE PLACING

## CONDITIONS OF THE PLACING

Acceptance of all applications for the Placing Shares under the Placing will be conditional upon:

- (i) the GEM Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus; and
- (ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waivers of any condition by the Lead Manager on behalf of the Underwriters), and not being terminated in accordance with its terms or otherwise,

in each case, on or before the dates and times specified in the Underwriting Agreement (unless and to the extent such conditions are waived on or before such dates and times) and in any event not later than 29th August, 2002, being the date which is 30 days after the date of this prospectus.

## STABILISATION

In connection with the Placing, the Lead Manager (on behalf of the Underwriters) may over-allocate Shares and may cover such over-allocations by means of exercising the Over-allotment Option in full or in part, at any time up to the 30th day from the date of this prospectus or by purchasing Shares in the secondary market at prices that do not exceed the Placing Price or through the stock borrowing arrangement with Coxwell or by a combination of these means or otherwise as may be permitted under applicable laws, and/or effect transactions which stabilise or maintain the market price of the Shares at levels other than those which might otherwise prevail but which are not higher than the Placing Price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements. Such transactions, if commenced, may be discontinued at any time. Should stabilising transactions be effected in connection with the distribution of the Placing Shares, they will be done at the direction and the absolute discretion of the Lead Manager.

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid or purchase the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public offer prices of the securities. Relevant provisions of the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) prohibit market manipulation in the form of pegging or stabilizing the price of securities in certain circumstances.

## COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on GEM are expected to commence on 6th August, 2002. Shares will be traded in board lots of 4,000 each.

## STRUCTURE OF THE PLACING

### SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the Shares on GEM, as well as the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or on any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

In respect of dealings in the Shares which may be settled through CCASS, investors should seek the advice of their stockbrokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interests.

The Company will not issue temporary documents or evidence of title.

The following is the text of a report, prepared for the purpose of inclusion in this prospectus, from the auditors and reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong.



15th Floor  
Hutchison House  
10 Harcourt Road  
Central  
Hong Kong

29th July, 2002

The Directors  
B&S Entertainment Holdings Limited  
Kim Eng Capital (Hong Kong) Limited

Dear Sirs,

We set out below our report on the financial information regarding B&S Entertainment Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the two years ended 30th June, 2000 and 2001 and the six months ended 31st December, 2001 (the “Relevant Periods”), prepared on the basis set out in Section 1 below for inclusion in the prospectus of the Company dated 29th July, 2002 (the “Prospectus”).

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 11th April, 2002 for the purpose of acting as a holding company of the subsidiaries set out in Section 1 below. The Company has not carried on any business since the date of its incorporation, save for the transactions relating to the Group reorganisation (the “Group reorganisation”), as further described in the section headed “Corporate reorganisation” in Appendix IV of the Prospectus.

With the exception of B & S Films Distribution Company Limited (“BSDL”), all companies now comprising the Group have adopted 30th June as their financial year end date. BSDL, a subsidiary established and operating in Hong Kong, has adopted 31st December as its financial year end date.

As at the date of this report, no audited financial statements have been prepared for the Company and two of its subsidiaries, B & S Group Limited and Fleur Group Limited, since their dates of incorporation as they were newly incorporated and either are inactive or have not carried on any business other than the transactions relating to the Group reorganisation. We have, however, performed our own independent review of all of the relevant transactions of these companies since their dates of incorporation and carried out such procedures as we considered necessary for inclusion of financial information relating to these companies in this report.

We have examined the audited financial statements or, where appropriate, the management accounts of all of the companies now comprising the Group for the Relevant Periods, or from the respective dates of their incorporation where this is a shorter period, and have carried out such additional procedures as we considered necessary, in accordance with the Auditing Guideline "Prospectuses and the reporting accountant" issued by the Hong Kong Society of Accountants (the "HKSA").

We have acted as auditors of all of the companies now comprising the Group for the year ended 30th June, 2001 and the six months ended 31st December, 2001.

The financial statements of Best Faith (Hong Kong) Limited and B & S Films Production Limited for the year ended 30th June, 2000 and the financial statements of BSDL for the year ended 31st December, 2000 were audited by C.F. Li & Co., Certified Public Accountants, and were prepared under Section 141D of the Hong Kong Companies Ordinance. For the purpose of this report, we have undertaken an independent audit of the financial statements of Best Faith (Hong Kong) Limited, B & S Films Production Limited and BSDL for the year ended 30th June, 2000 in accordance with Statements of Auditing Standards issued by the HKSA.

The summaries of the combined results and cash flows of the Group for the Relevant Periods and of the combined balance sheets of the Group as at 30th June, 2000 and 2001 and 31st December, 2001 (the "Summaries") set out in this report have been prepared from the audited financial statements or, where appropriate, the management accounts of the companies now comprising the Group and are presented on the basis set out in Section 1 below.

The directors of the Company are responsible for the preparation of the Summaries. It is our responsibility to form an independent opinion on the Summaries.

In our opinion, the Summaries together with the notes thereon give, for the purpose of this report, a true and fair view of the combined results and cash flows of the Group for the Relevant Periods and of the combined balance sheets of the Group as at 30th June, 2000 and 2001 and 31st December, 2001, respectively.

## **1. BASIS OF PRESENTATION**

The Summaries, which are based on the audited financial statements or, where appropriate, the management accounts of the companies now comprising the Group, include the results, balance sheets and cash flows of the companies now comprising the Group as if the current Group structure had been in existence throughout the Relevant Periods, or from the respective dates of their incorporation where this is a shorter period. All material intra-group transactions and balances have been eliminated on combination.

The Summaries have been prepared on the basis that the Group will continue to operate as a going concern because subsequent to 31st December, 2001:

- (a) the amount advanced by Mr. Siu Luen Fat ("Mr. Siu"), a director of the Company, to the Group of approximately HK\$17,550,000 has been capitalised as share capital of B & S Group Limited; and

- (b) Mr. Siu has undertaken to the Company that he will not demand for repayment of any outstanding amount due to him from the date when the Company's shares are listed on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") to 30th June, 2005 and from 30th June, 2005 onward, Mr. Siu will not demand for repayment of any outstanding amount unless:
- (i) the Group has positive cash flow and retained earnings in the financial year immediately preceding the financial year in which the repayment is required to be made and such positive cash flow is sufficient to fund the repayment of the amount due and all the working capital needs of the Group for the financial year in which such repayment is required to be made; and
  - (ii) each of the then independent non-executive directors confirms that such repayment will not adversely affect the Group's operations or the implementation of its business plans during the period from the Latest Practicable Date to 30th June, 2005 as stated in the Prospectus.

At the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which are private companies (or, if incorporated or registered outside Hong Kong, have substantially similar characteristics to those of a private company incorporated in Hong Kong), and the particulars of which are set out below:

Company name	Place and date of incorporation	Issued and fully paid-up share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
B & S Group Limited	British Virgin Islands 20th March, 2002	Ordinary US\$30,000	100	—	Investment holding
Best Faith (Hong Kong) Limited (Trading as B & S Films Creation Works House)	Hong Kong 16th May, 1997	Ordinary HK\$3,000	—	100	Production and sale of videos and films, and licensing of video and copyright/film rights
B & S Films Production Limited	Hong Kong 14th January, 1998	Ordinary HK\$10,000	—	100	Production of videos and films
B & S Films Distribution Company Limited	Hong Kong 30th September, 1998	Ordinary HK\$10,000	—	100	Distribution of video and copyrights/film rights, and provision of agency services
Fleur Group Limited	British Virgin Islands 2nd January, 2002	Ordinary US\$15,000	—	100	Holding of copyrights

## 2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by the Group in arriving at the financial information set out in this report, which conform with Statements of Standard Accounting Practice issued by the HKSA and the disclosure requirements of the GEM Listing Rules, are set out below:

### (a) Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

### (b) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

### (c) Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

**(d) Fixed assets and depreciation**

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

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

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

**(e) Film rights and films in progress****(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 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 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 any impairment losses. Costs include all direct costs associated with the production of films. Provisions are made against costs which are in excess of future revenue expected to be generated by these films. The costs of films in progress are transferred to film rights upon completion.

(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 profit and loss account on a systematic basis, in proportion to the expected revenues and the underlying licence periods. Provisions are made against the carrying amounts of the sub-licensing rights if the carrying amounts exceed their expected future revenue.

(f) **Leased assets**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

(g) **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

(h) **Cash equivalents**

For the purpose of the combined cash flow statements, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of the combined balance sheets, cash and bank balances represent assets which are not restricted as to use.

(i) **Deferred tax**

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

**(j) Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- income from the licensing and sub-licensing of distribution rights over films 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
- interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

**(k) Foreign currencies**

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

**(l) Retirement benefits 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. The MPF Scheme has operated since 1st December, 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

## 3. COMBINED RESULTS

The following is a summary of the combined results of the Group for the Relevant Periods prepared on the basis set out in Section 1 above:

	<i>Notes</i>	Year ended 30th June,		Six months ended 31st December,
		2000	2001	2001
		HK\$'000	HK\$'000	HK\$'000
Turnover	(a)	23,472	28,267	12,711
Cost of sales		<u>(19,463)</u>	<u>(21,969)</u>	<u>(9,641)</u>
Gross profit		4,009	6,298	3,070
Other revenue		2	19	1
Selling and distribution costs		(1,830)	(1,362)	(585)
Administrative expenses		(4,148)	(4,011)	(1,797)
Other operating expenses		<u>(995)</u>	<u>—</u>	<u>—</u>
Profit/(loss) from operating activities	(b)	(2,962)	944	689
Finance costs	(c)	<u>(55)</u>	<u>(52)</u>	<u>(24)</u>
Profit/(loss) before tax		(3,017)	892	665
Tax	(e)	<u>(70)</u>	<u>(45)</u>	<u>(18)</u>
Net profit/(loss) from ordinary activities attributable to shareholders		<u><u>(3,087)</u></u>	<u><u>847</u></u>	<u><u>647</u></u>
Dividend	(f)	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>
Earnings/(loss) per share (cent)	(g)	<u><u>(0.91 cent)</u></u>	<u><u>0.25 cent</u></u>	<u><u>0.19 cent</u></u>

Notes:

(a) **Turnover**

Turnover represents licensing and sub-licensing fee income and the net invoiced value of goods sold, after allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on combination.

An analysis of the Group's turnover by activity for the Relevant Periods is as follows:

	Year ended 30th June,		Six months ended 31st December,
	2000	2001	2001
	HK\$'000	HK\$'000	HK\$'000
Licensing of film rights	20,640	13,114	8,802
Sub-licensing of film rights	—	13,900	3,900
Sale of videos and video compact discs	<u>2,832</u>	<u>1,253</u>	<u>9</u>
	<u>23,472</u>	<u>28,267</u>	<u>12,711</u>

(b) **Profit/(loss) from operating activities**

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

	Year ended 30th June,		Six months ended 31st December,
	2000	2001	2001
	HK\$'000	HK\$'000	HK\$'000
Cost of film and sub-licensing rights*	16,639	21,112	9,625
Cost of inventories sold	1,261	857	16
Provision for film rights*	1,563	—	—
Depreciation	137	159	81
Minimum lease payments under operating leases of land and buildings	989	177	84
Auditors' remuneration	43	240	150
Staff costs (excluding directors' remuneration in note 3(d)):			
Salaries and allowances	438	308	130
Retirement benefits scheme contributions**	<u>—</u>	<u>9</u>	<u>6</u>
	<u>438</u>	<u>317</u>	<u>136</u>
Provision for bad and doubtful debts	995	—	—
Interest income	<u>(1)</u>	<u>(2)</u>	<u>—</u>

\* The provision for and cost of film and sub-licensing rights for the year/period have been included in "Cost of sales" on the face of the combined results.

\*\* At 31st December, 2001, the Group had no forfeited contributions available to reduce its contributions to the retirement benefits scheme in future years.

## (c) Finance costs

	Year ended 30th June,		Six months
	2000	2001	ended 31st
	HK\$'000	HK\$'000	December,
			2001
			HK\$'000
Interest on bank overdrafts wholly repayable within five years	<u>55</u>	<u>52</u>	<u>24</u>

## (d) Directors' and employees' emoluments

Details of remuneration paid to three executive directors during the Relevant Periods are as follows:

	Year ended 30th June,		Six months
	2000	2001	ended 31st
	HK\$'000	HK\$'000	December,
			2001
			HK\$'000
Fees	—	—	—
Other emoluments:			
Other allowances	<u>180</u>	<u>180</u>	<u>90</u>
	<u>180</u>	<u>180</u>	<u>90</u>

Each of the three executive directors received allowances of HK\$60,000 for the years ended 30th June, 2000 and 2001 and HK\$30,000 for the six months ended 31st December, 2001.

The remuneration of each of the three directors during the Relevant Periods fell within the band of Nil to HK\$1,000,000.

The five highest paid individuals of the Group included two, two and three directors during the two years ended 30th June, 2001 and the six months ended 31st December, 2001, respectively, and the information relating to their emoluments has been disclosed above. Details of the emoluments paid to the remaining three, three and two non-director, highest paid individuals during the Relevant Periods, respectively, are as follows:

	Year ended 30th June,		Six months
	2000	2001	ended 31st
	HK\$'000	HK\$'000	December,
			2001
			HK\$'000
Salaries and allowances	242	260	93
Retirement benefits scheme contributions	<u>—</u>	<u>7</u>	<u>5</u>
	<u>242</u>	<u>267</u>	<u>98</u>

The remuneration of each of the remaining three, three and two non-director, highest paid individuals during the Relevant Periods, respectively, fell within the band of Nil to HK\$1,000,000.

During the Relevant Periods, no emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office. No director waived or agreed to waive any emoluments during the Relevant Periods.

(e) **Tax**

Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profits arising in Hong Kong in respect of the Relevant Periods.

The Group's deferred tax asset not recognised was HK\$3,005,000, HK\$2,898,000 and HK\$2,810,000 as at 30th June, 2000, 2001 and 31st December, 2001, respectively, which principally represented tax losses carried forward.

(f) **Dividend**

No dividends have been paid or declared by the Company and its subsidiaries since the dates of their incorporation.

(g) **Earnings/(loss) per share**

The calculation of basic earnings/(loss) per share for the Relevant Periods is based on the net profit/(loss) from ordinary activities attributable to shareholders for each of the respective years/period and on the assumption that 340,000,000 shares were in issue, comprising the 10,000,000 shares in issue as at the date of the Prospectus and the 330,000,000 shares to be issued pursuant to the Capitalisation Issue, as further disclosed in the section headed "Written resolutions of the sole Shareholder passed on 22nd July, 2002" in Appendix IV to the Prospectus.

(h) **Related party transactions**

(1) The Group had the following material transactions with related parties during the Relevant Periods:

		Year ended 30th June,		Six months ended 31st
		2000	2001	December,
		HK\$'000	HK\$'000	2001
				HK\$'000
Management fee paid to Lightal Limited ("LL")	(i)	2,640	2,640	1,320
Licensing income received from Asia United Trading Limited ("AUT")	(ii)	1,515	820	—
Sale of goods to AUT	(ii)	870	—	—
Rental expenses to LL	(iii)	154	168	84
		<u>          </u>	<u>          </u>	<u>          </u>

(i) The Group paid the management fee for back-office support including administrative and accounting services and distribution and promotion activities provided by LL, which was owned by Mr. Siu Kin Fat, Mr. Siu Kuen Fat and Mr. Siu, the directors of the Company, in equal shares until 19th October, 2001 when Mr. Siu became the sole beneficial owner of LL. The management fee was charged by reference to the actual costs incurred. Such transaction will be terminated following the listing of the Company's shares on the Stock Exchange.

- (ii) The licensing income and proceeds from sale of goods was received from AUT, a company owned by Mr. Siu Kin Fat, Mr. Siu Kuen Fat and Mr. Siu, the directors of the Company, in equal shares. The fees were made at prices mutually agreed between the parties. Such transactions were terminated and will not continue following the listing of the Company's shares on the Stock Exchange.
  - (iii) The office rental expenses have been charged at HK\$14,000 per month with reference to the prevailing market value since August 1999. Such transaction will continue after the listing of the Company's shares on the Stock Exchange.
- (2) During the Relevant Periods, the Group's credit facilities were secured by personal guarantees from the three directors of the Company and by corporate guarantees from both LL, which was beneficially owned by Mr. Siu, and Bossfield Investment Limited ("BIL"), which had common directors with the Company, further details of which are set out in section 4(h).
- (3) During the Relevant Periods, the Group had an amount due to a director of the Company. The amount due was unsecured and interest-free, further details of which are set out in section 4(g).

## 4. COMBINED BALANCE SHEETS

The following is a summary of the combined balance sheets of the Group as at the end of each of the Relevant Periods prepared on the basis set out in Section 1 above:

	<i>Notes</i>	<b>30th June, 2000</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>	<b>31st December, 2001</b> <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>				
Fixed assets	(a)	<u>274</u>	<u>206</u>	<u>129</u>
<b>CURRENT ASSETS</b>				
Film rights and films in progress	(b)	18,676	7,895	6,107
Inventories	(c)	285	3	2
Accounts receivable	(d)	83	202	404
Prepayments, deposits and other receivables		3,842	8,253	5,714
Tax recoverable		—	—	11
Due from a related company	(e)	1,556	—	—
Cash and bank balances		<u>121</u>	<u>131</u>	<u>307</u>
		<u>24,563</u>	<u>16,484</u>	<u>12,545</u>
<b>CURRENT LIABILITIES</b>				
Deposits received		1,170	470	729
Accounts payable	(f)	326	229	136
Accrued liabilities and other payables		153	474	589
Tax payable		76	41	—
Due to a director	(g)	41,147	32,608	27,674
Bank overdrafts, secured	(h)	<u>401</u>	<u>457</u>	<u>488</u>
		<u>43,273</u>	<u>34,279</u>	<u>29,616</u>
<b>NET CURRENT LIABILITIES</b>		<u>(18,710)</u>	<u>(17,795)</u>	<u>(17,071)</u>
<b>NET LIABILITIES</b>		<u>(18,436)</u>	<u>(17,589)</u>	<u>(16,942)</u>
<b>CAPITAL AND RESERVES</b>				
Share capital	(i)	23	23	23
Accumulated losses		<u>(18,459)</u>	<u>(17,612)</u>	<u>(16,965)</u>
		<u>(18,436)</u>	<u>(17,589)</u>	<u>(16,942)</u>

Notes:

## (a) Fixed assets

	<b>30th June, 2000</b>		
	<b>Cost</b>	<b>Accumulated depreciation/ impairment</b>	<b>Net book value</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Office equipment	120	70	50
Furniture and fixtures	150	76	74
Plant and machinery	<u>276</u>	<u>126</u>	<u>150</u>
	<u>546</u>	<u>272</u>	<u>274</u>

	<b>30th June, 2001</b>		
	<b>Cost</b>	<b>Accumulated depreciation/ impairment</b>	<b>Net book value</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Office equipment	120	100	20
Furniture and fixtures	185	122	63
Plant and machinery	<u>332</u>	<u>209</u>	<u>123</u>
	<u>637</u>	<u>431</u>	<u>206</u>

	<b>31st December, 2001</b>		
	<b>Cost</b>	<b>Accumulated depreciation/ impairment</b>	<b>Net book value</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Office equipment	120	115	5
Furniture and fixtures	189	146	43
Plant and machinery	<u>332</u>	<u>251</u>	<u>81</u>
	<u>641</u>	<u>512</u>	<u>129</u>

## (b) Film rights and films in progress

	30th June,		31st December,
	2000	2001	2001
	HK\$'000	HK\$'000	HK\$'000
Film rights	2,419	1,753	1,249
Films in progress	588	2,632	4,858
Sub-licensing rights	<u>15,669</u>	<u>3,510</u>	<u>—</u>
	<u>18,676</u>	<u>7,895</u>	<u>6,107</u>

## (c) Inventories

As at the end of each of the Relevant Periods, no inventories were stated at net realisable value.

## (d) Accounts receivable

The ages of the accounts receivable are analysed as follows:

	30th June,		31st December,
	2000	2001	2001
	HK\$'000	HK\$'000	HK\$'000
Outstanding balances with ages:			
Within 30 days	—	188	238
Between 31 and 60 days	—	—	—
Between 61 and 90 days	2	—	—
Over 90 days	<u>1,076</u>	<u>14</u>	<u>166</u>
	1,078	202	404
Provision for bad and doubtful debts	<u>(995)</u>	<u>—</u>	<u>—</u>
	<u>83</u>	<u>202</u>	<u>404</u>

The credit terms offered by the Group were in accordance with the terms specified in the agreements entered into with the other parties.

## (e) Due from a related company

Particulars of the amount due from a related company disclosed pursuant to Section 161D of the Hong Kong Companies Ordinance are as follows:

	30th June, 2000	Maximum amount outstanding during the year	1st July, 1999
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Asia United Trading Limited	<u>1,556</u>	<u>2,251</u>	<u>2,251</u>

	30th June, 2001	Maximum amount outstanding during the year	1st July, 2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Asia United Trading Limited	<u>—</u>	<u>1,556</u>	<u>1,556</u>

The balance due from the related company arose from the Group's trading activities and was unsecured, interest-free and was fully settled during the year ended 30th June, 2001.

## (f) Accounts payable

The ages of the accounts payable are analysed as follows:

	30th June, 2000	30th June, 2001	31st December, 2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Outstanding balances with ages:			
Within 30 days	70	25	—
Between 31 and 60 days	—	—	—
Between 61 and 90 days	199	—	—
Over 90 days	<u>57</u>	<u>204</u>	<u>136</u>
	<u>326</u>	<u>229</u>	<u>136</u>

(g) **Due to a director**

The amount due to a director was unsecured and interest-free. Part of the indebtedness has been capitalised as set out in section 8(c) below. The director has undertaken to the Company that he will not demand for repayment of any outstanding amount due to him from the date when the Company's shares are listed on the Stock Exchange to 30th June, 2005 and from 30th June, 2005 onward, Mr. Siu will not demand for repayment of any outstanding amount unless:

- (i) the Group has positive cash flow and retained earnings in the financial year immediately preceding the financial year in which the repayment is required to be made and such positive cash flow is sufficient to fund the repayment of the amount due and all the working capital needs of the Group for the financial year in which such repayment is required to be made; and
- (ii) each of the then independent non-executive directors confirms that such repayment of any of the outstanding amount will not adversely affect the Group's operations or the implementation of its business plans during the period from the Latest Practicable Date to 30th June, 2005 as stated in the Prospectus.

During the Relevant Periods, had the amounts due to a director been interest-bearing at the Group's bank overdraft borrowing rates of approximately 13.94%, 11.75% and 8.85% per annum, the directors consider that the combined results of the Group for the Relevant Periods would have been adjusted as follows:

	Year ended 30th June, 2000 <i>HK\$'000</i>	Year ended 30th June, 2001 <i>HK\$'000</i>	Six months ended 31st December, 2001 <i>HK\$'000</i>
Net profit/(loss) from ordinary activities attributable to shareholders as set out in the statements of combined results	(3,087)	847	647
Notional interest expenses on amount due to a director	<u>(4,814)</u>	<u>(5,295)</u>	<u>(1,295)</u>
	<u>(7,901)</u>	<u>(4,448)</u>	<u>(648)</u>

(h) **Bank overdrafts**

The bank overdrafts were secured by personal guarantees from the three directors of the Company and corporate guarantees from LL, which was beneficially owned by Mr. Siu, and BIL, which has common directors with the Company.

(i) **Share capital**

The share capital represents the aggregate amount of the issued and fully paid-up capital of the companies comprising the Group as at the respective balance sheet dates.

(j) **Contingent liabilities**

As at the end of each of the Relevant Periods, the Group did not have any significant contingent liabilities.

(k) **Net liabilities of the Company**

The Company was incorporated on 11th April, 2002. On the basis set out in Section 1 above, the net liabilities of the Company as at 31st December, 2001 would have been HK\$16,942,000. Had the capitalisation as referred to in section 8(c) below been completed on 31st December, 2001, the net assets of the Company as at that date would have been HK\$608,000.

(l) **Reserves**

As at 31st December, 2001, the Company had not commenced operations and accordingly, there were no reserves available for distribution to the shareholders of the Company at that date.

## 5. COMBINED CASH FLOW STATEMENTS

The combined cash flow statements of the Group for the Relevant Periods, prepared on the basis set out in Section 1 above, are as follows:

	<i>Note</i>	<b>Year ended 30th June, 2000</b>	<b>2001</b>	<b>Six months ended 31st December, 2001</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NET CASH INFLOW FROM OPERATING ACTIVITIES	(a)	305	175	243
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE				
Interest received		1	2	—
Interest paid		<u>(55)</u>	<u>(52)</u>	<u>(24)</u>
Net cash outflow from returns on investments and servicing of finance		<u>(54)</u>	<u>(50)</u>	<u>(24)</u>
TAX				
Hong Kong profits tax paid		<u>—</u>	<u>(80)</u>	<u>(70)</u>
INVESTING ACTIVITIES				
Purchases of fixed assets		(180)	(91)	(4)
Proceeds from disposal of fixed assets		<u>6</u>	<u>—</u>	<u>—</u>
Net cash outflow from investing activities		<u>(174)</u>	<u>(91)</u>	<u>(4)</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		77	(46)	145
Cash and cash equivalents at beginning of year/period		<u>(357)</u>	<u>(280)</u>	<u>(326)</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		<u>(280)</u>	<u>(326)</u>	<u>(181)</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances		121	131	307
Bank overdrafts		<u>(401)</u>	<u>(457)</u>	<u>(488)</u>
		<u>(280)</u>	<u>(326)</u>	<u>(181)</u>

Note:

(a) Reconciliation of profit/(loss) from operating activities to net cash inflow from operating activities

	Year ended 30th June,		Six months
	2000	2001	ended 31st
	HK\$'000	HK\$'000	December,
			2001
			HK\$'000
Profit/(loss) from operating activities	(2,962)	944	689
Interest income	(1)	(2)	—
Depreciation	137	159	81
Provision for film rights	1,563	—	—
Provision for bad and doubtful debts	995	—	—
Decrease/(increase) in film rights and films in progress	(11,462)	10,781	1,788
Decrease/(increase) in inventories	(285)	282	1
Increase in accounts receivable	(365)	(119)	(202)
Decrease/(increase) in prepayments, deposits and other receivables	(2,694)	(4,411)	2,539
Decrease in amount due from a related company	695	1,556	—
Increase/(decrease) in deposits received	1,023	(700)	259
Increase/(decrease) in accounts payable	326	(97)	(93)
Increase/(decrease) in accrued liabilities and other payables	(54)	321	115
Increase/(decrease) in amount due to a director	<u>13,389</u>	<u>(8,539)</u>	<u>(4,934)</u>
Net cash inflow from operating activities	<u>305</u>	<u>175</u>	<u>243</u>

## 6. SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately, according to the nature of operations, products and services they provide. Each of the Group's business segments represents a strategic business unit that offers different products which are subject to risks and returns that are different from those of other business segments.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers for sale of videos and video compact discs and ultimate markets for distribution for film rights licensing and sub-licensing activities.

The following tables present revenue, profit/(loss) and certain asset and liability information for the Group's business segments and geographical segments in respect of the Relevant Periods.

### (a) Business segments

*For the six months ended 31st December, 2001*

	<b>Film licensing and sub-licensing</b>	<b>Sale of videos and video compact discs</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue:			
Sales to external customers	12,702	9	12,711
Other revenue	<u>1</u>	<u>—</u>	<u>1</u>
<b>Total</b>	<b><u>12,703</u></b>	<b><u>9</u></b>	<b><u>12,712</u></b>
Segment results and profit/(loss) from operating activities	<u>696</u>	<u>(7)</u>	689
Finance costs			<u>(24)</u>
Profit before tax			665
Tax			<u>(18)</u>
Net profit from ordinary activities attributable to shareholders			<u>647</u>

*Assets and liabilities as at 31st December, 2001*

	<b>Film licensing and sub-licensing</b> <i>HK\$'000</i>	<b>Sale of videos and video compact discs</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
Segment assets	<u>12,352</u>	<u>4</u>	12,356
Unallocated assets			<u>318</u>
			<u>12,674</u>
Segment liabilities	<u>29,107</u>	<u>21</u>	29,128
Unallocated liabilities			<u>488</u>
			<u>29,616</u>
Other segment information:			
Depreciation	<u>81</u>	<u>—</u>	<u>81</u>
 <i>For the year ended 30th June, 2001</i>			
Segment revenue:			
Sales to external customers	27,014	1,253	28,267
Other revenue	<u>19</u>	<u>—</u>	<u>19</u>
Total	<u>27,033</u>	<u>1,253</u>	<u>28,286</u>
Segment results and profit from operating activities	<u>702</u>	<u>242</u>	944
Finance costs			<u>(52)</u>
Profit before tax			892
Tax			<u>(45)</u>
Net profit from ordinary activities attributable to shareholders			<u>847</u>

*Assets and liabilities as at 30th June, 2001*

	Film licensing and sub-licensing <i>HK\$'000</i>	Sale of videos and video compact discs <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment assets	<u>16,494</u>	<u>65</u>	16,559
Unallocated assets			<u>131</u>
			<u>16,690</u>
Segment liabilities	<u>33,639</u>	<u>142</u>	33,781
Unallocated liabilities			<u>498</u>
			<u>34,279</u>
Other segment information:			
Depreciation	<u>159</u>	<u>—</u>	<u>159</u>

*For the year ended 30th June, 2000*

Segment revenue:			
Sales to external customers	20,640	2,832	23,472
Other revenue	<u>2</u>	<u>—</u>	<u>2</u>
Total	<u>20,642</u>	<u>2,832</u>	<u>23,474</u>
Segment results and profit/(loss) from operating activities	<u>(3,135)</u>	<u>173</u>	(2,962)
Finance costs			<u>(55)</u>
Loss before tax			(3,017)
Tax			<u>(70)</u>
Net loss from ordinary activities attributable to shareholders			<u>(3,087)</u>

Assets and liabilities as at 30th June, 2000

	Film licensing HK\$'000	Sale of videos and video compact discs HK\$'000	Total HK\$'000
Segment assets	<u>23,994</u>	<u>722</u>	<u>24,716</u>
Unallocated assets			<u>121</u>
			<u>24,837</u>
Segment liabilities	<u>42,674</u>	<u>122</u>	42,796
Unallocated liabilities			<u>477</u>
			<u>43,273</u>
Other segment information:			
Depreciation	<u>137</u>	<u>—</u>	<u>137</u>

(b) **Geographical segments**

For the six months ended 31st December, 2001

	Hong Kong HK\$'000	The PRC HK\$'000	Asia except Hong Kong and the PRC HK\$'000	Others HK\$'000	Total HK\$'000
Segment revenue:					
Sales to external customers	5,342	5,120	1,281	968	12,711
Other revenue	<u>1</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1</u>
Total	<u>5,343</u>	<u>5,120</u>	<u>1,281</u>	<u>968</u>	<u>12,712</u>
Segment results	<u>(179)</u>	<u>603</u>	<u>151</u>	<u>114</u>	<u>689</u>
Other segment information:					
Segment assets	<u>2,335</u>	<u>7,184</u>	<u>1,797</u>	<u>1,358</u>	<u>12,674</u>

For the year ended 30th June, 2001

	<b>Hong Kong</b>	<b>The PRC</b>	<b>Asia except Hong Kong and the PRC</b>	<b>Others</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue:					
Sales to external customers	18,327	7,710	1,950	280	28,267
Other revenue	<u>19</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>19</u>
Total	<u>18,346</u>	<u>7,710</u>	<u>1,950</u>	<u>280</u>	<u>28,286</u>
Segment results	<u>(395)</u>	<u>1,038</u>	<u>263</u>	<u>38</u>	<u>944</u>
Other segment information:					
Segment assets	<u>12,157</u>	<u>3,516</u>	<u>889</u>	<u>128</u>	<u>16,690</u>

For the year ended 30th June, 2000

Segment revenue:					
Sales to external customers	3,684	3,450	11,628	4,710	23,472
Other revenue	<u>2</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2</u>
Total	<u>3,686</u>	<u>3,450</u>	<u>11,628</u>	<u>4,710</u>	<u>23,474</u>
Segment results	<u>569</u>	<u>(617)</u>	<u>(2,071)</u>	<u>(843)</u>	<u>(2,962)</u>
Other segment information:					
Segment assets	<u>16,757</u>	<u>1,413</u>	<u>4,738</u>	<u>1,929</u>	<u>24,837</u>

## 7. DIRECTORS' REMUNERATION

Save as disclosed in section 3(d), no remuneration was paid or is payable in respect of any of the Relevant Periods referred to in this report by the Company, or any of the companies now comprising the Group, to the directors of the Company. Under the arrangements currently in force, the estimated amount of directors' fees and other emoluments payable to the directors of the Company for the year ending 30th June, 2002 will be approximately HK\$180,000.

## 8. SUBSEQUENT EVENTS

The following events took place subsequent to 31st December, 2001:

- (a) On 22nd July, 2002, the Company became the holding company of the Group.
- (b) The companies now comprising the Group underwent a reorganisation in preparation for the listing of the Company's shares on the Stock Exchange. Further details of this reorganisation are set out in the section headed "Corporate reorganisation" in Appendix IV of the Prospectus.
- (c) On 22nd July, 2002, the advance from a director amounting to HK\$17,550,000 as at that date was capitalised by issuing 15,000 shares in the capital of B & S Group Limited.

Save as aforesaid, no other significant events took place subsequent to 31st December, 2001.

## 9. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31st December, 2001.

Yours faithfully,  
**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong

The following is the text of a letter with a summary of valuation and an extract of the valuation certificate, prepared for the purpose of inclusion in this prospectus, from Vigers Hong Kong Limited, the independent property valuer, in connection with their valuation as at 31st May, 2002 of the property interests held by the Group.

**Vigers Hong Kong Ltd.  
International Property Consultants**

Suite 1607-12  
Miramar Tower  
132 Nathan Road  
Tsimshatsui  
Kowloon  
Hong Kong



**VIGERS**  
威格斯

29th July, 2002

The Directors  
B&S Entertainment Holdings Limited  
7th Floor, Cheong Tai Industrial Building  
16 Tai Yue Street  
San Po Kong  
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value the property interests of B&S Entertainment Holdings Limited (the “Company”) and its subsidiaries (together referred to as the “Group”) in Hong Kong, we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the open market value of such property interests as at 31st May, 2002 (“the date of valuation”).

Our valuation of the interests in property is our opinion of the open market value which we would define as intended to mean — “the best price at which the sale of an interest in property might reasonably be expected to have been completed unconditionally for cash consideration on the date of valuation assuming:

- (a) a willing seller;
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (d) that no account is taken of any additional bid by a special purchaser with a special interest; and
- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

In valuing properties situated in Hong Kong and held under the government Leases which have been expired before 30th June, 2047, we have taken account of the statement contained in the Annex III of the joint Declaration of the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the People’s Republic of China on the question of Hong Kong and the New Territories Leases (Extension) Ordinance 1988 that more of such leases would have been extended without premium until 30th June, 2047 and that an annual rent of three percent of the rateable value would be charged from the date of extension.

Our valuations have been made on the assumption that the owners sell the relevant properties on the open market without the benefit of deferred terms contracts, leasebacks, joint ventures, management agreements or any similar arrangements which would serve to increase the values of such interests. In addition, no forced sale situation in any manner is assumed in our valuations.

For all properties in Hong Kong, we have caused searches to be made at the land Registry and in some instances we have been provided with extracts from title documents relating to those properties. We have not, however, searched the original documents to verify ownership or to verify the existence of any lease amendments which do not appear on the copies handed to us. All documents and leases have been used for reference only. All documents and leases have been used for reference only. All dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us by the Group and therefore only approximation.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out a structural survey. We are therefore unable to report whether any such parts of the property interests are free from decay, damage by insects or any other structural defects. However, in the course of our inspection, we have not discovered any serious defects.

For the properties are leased by the Group in Hong Kong, have no commercial value due to the short term nature of the property interests or the restrictions imposed upon tenants under the tenancy agreements or the lack of substantial profit rent.

We have relied to a very considerable extent on the information provided by the Group and have accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, particulars of occupancy, lettings, rental income and revenue, joint venture agreements, development plans, construction costs estimates, site and floor areas, the identification of those properties in which the Group has valid interests and all other relevant matters. Dimensions, measurements and areas included in the valuation certificates are based on information contained in copies of documents provided to us and are therefore only approximations.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We were also advised by the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

We have not undertaken a survey to determine whether the mechanical and electrical systems within the subject properties (or the buildings or developments in which they are located) will be adversely affected on or after the year 2000 and as such have assumed that the subject properties will be unaffected.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

We enclose herewith our valuation certificate.

Yours faithfully,  
For and on behalf of  
**VIGERS HONG KONG LTD.**  
**Joseph K P Leung**  
*MRICS, AHKIS*  
*Registered Professional Surveyor*  
*Director*  
*Valuation Department*

*Note:* Mr. Joseph K.P. Leung is a Chartered Surveyor and Registered Professional Surveyor who has over 14 years experience in valuation of properties in Hong Kong.

## VALUATION CERTIFICATE

## Property leased by the Group in Hong Kong

Property	Description	Particulars of occupancy	Capital value in existing state as at 31st May, 2002
1. 7th Floor, Cheong Tai Factory Building, No. 16 Tai Yau Street, San Po Kong, Kowloon, Hong Kong	The property comprises the whole of 7th Floor in a 12-storey building completed in 1965.  The property has a saleable floor area of approximately 3,800 sq.m.	The property is leased to the Group by Lightal Limited under a Tenancy Agreement dated 28th June, 2002 for a term of 3 years commencing from 31st January, 2002 to 30th January, 2005 at a monthly rental of HK\$14,000, exclusive of rates, government rent, management fees and other outgoings of the premises.  The property is at present occupied by the Group for film production purposes.	No commercial value

*Note:* According to the record in the Land Registry, the registered owner of the property is Lightal Limited.

The following is the text of a letter with a summary of other asset valuation, prepared for the purpose of inclusion in this prospectus, from Vigers Hong Kong Limited, the independent property valuer, in connection with their valuation as at 31st December, 2001 of the interest in a film library held by the Group.

**Vigers Hong Kong Ltd.  
International Property Consultants**

Suite 1607-12  
Miramar Tower  
132 Nathan Road  
Tsimshatsui  
Kowloon  
Hong Kong



**VIGERS**  
威格斯

29th July, 2002

The Board of Directors  
B&S Entertainment Holdings Limited  
7/F, Cheong Tai Industrial Building  
16 Tai Yau Street  
San Po Kong  
Hong Kong

Dear Sirs/Madams,

According to the instructions of B&S Entertainment Holdings Limited (the “Company”), we have conducted an appraisal on the fair market value of a 100 percent interest in a film library with details listed in a “List of the Film Library” hereinafter (collectively the “Film Library”) held by the Company and its subsidiaries (collectively the “Group”) as of 31st December, 2001 (the “Valuation Date”).

This letter summaries the principal conclusions of our full valuation report. It is our understanding that this appraisal will be used in connection with a listing of shares of the Company by way of placing on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.

## Backgrounds

The Group is principally engaged in the production of movies in Hong Kong and distribution of broadcasting rights of the motion pictures produced by the Group in Hong Kong and to overseas countries

The Film Library comprises 54 titles of film released in 1998 — 2001 (collectively the “Existing Films”), and 6 titles of film which were released or will be released this year (collectively the “New Films”). The outstanding production cost for the New Films was estimated to be HKD4.4 million as of the Valuation Date in accordance with the Company.

## The Nature of the Film Library

The Film Library is considered to be an intangible asset and intellectual property, which is protected by various laws and statutes regarding copyright in the vast majority of countries today.

The Group distributes the film series of the Film Library under various license agreements. Pursuant to these agreements, the licensees are usually granted rights to distribute some titles of the Film Library under specified media, such as free television, pay television, cable television, theatre, home video, video-on-demand; within license period, including holdback period and/or non-exclusive period; in specified territory; and with specified languages. License fee can be a fixed dollar amount, or a variable amount based on the revenue or profit generated from the license, or a hybrid of the aforesaid. According to the Company, license fee is usually contracted for a fixed dollar amount. In general, fixed license fee will be paid to the licensor by installments and the last installment will be payable upon delivery of relevant master tapes.

The majority of the Film Library is engaged in various license agreements (collectively the “Existing Agreements”) and almost all of relevant fixed license fees have been received (collectively the “Collected Fees”). In other words, the revenue stream of the Film Library is limited to the fees from licenses for which the Group has not granted to third party and uncollected fees of the Existing Agreements. The value of the Film Library is derived from these revenues and the box office revenue of the New Films which were not released on or before the Valuation Date.

## Basis and Methodology of Appraisal

Our appraisal was conducted on a fair market value basis. Fair market value is the estimated amount for which an asset should exchange between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The value of the Film Library was developed through the application of income approach with technique known as the discounted cash flow method to discount the future economic benefits of the Film Library which belong to the Company into a present value as of the Valuation Date. This method eliminates the discrepancy in the time value of money by using a discount rate to reflect all business risks including systematic and unsystematic risks in relation to the business.

The cost of equity explaining systematic risk was developed through the Capital Asset Pricing Model ("CAPM"). Size risk, lack of marketability and film library specific risk accounted for unsystematic risk and appropriate adjustments were made in determination of the cost of capital, namely discount rate.

Our investigation included but was not limited to discussions with the management of the Group in relation to the history and nature of the business of the Film Library and the industry. All such representations from the management have been assumed to be accurate and true and continue to be true in future. We have also made relevant inquiries and obtained further information as considered necessary for the purposes of this appraisal. Before arriving at our opinion of value, we have considered, including but not limited to, the following principal factors.

- the operating condition of the Group;
- the economic outlook in general and the specific economic environment related to the business;
- the potential of the business;
- comparative advantages and disadvantages of the business and industry; and
- market-derived investment returns of entities engaged in similar lines of business.

In preparing the appraisal, a number of assumptions have to be established for supporting our concluded opinion of value of the Film Library. The major assumptions adopted in this appraisal are as follows:

- There will be no major changes in the existing political, legal, and economic conditions in Hong Kong and other location in which the Group carries on its business.
- Exchange rates will not differ materially from those presently prevailing.
- The Company will retain competent management, key personnel, and technical staff to support its ongoing operation for the Film Library.
- Trends and market conditions for the Film Library will not deviate significantly from economic forecasts.
- Distribution and administration expenses were assumed to be in line with historical figures provided by the Company.
- Having considered comparable listed companies in Hong Kong and specific risks in connection with the Film Library, 24% was concluded to be appropriate discount rates for revenues from the Existing Films and the New Films respectively.

- The revenue of the Film Library was assumed to depreciate at a rate of 40% for every 5 years.
- The economic life of the Film Library was assumed to be 20 years.
- According to the Group, the majority of license agreements were contracted in Hong Kong and the relevant revenue was taxed in Hong Kong. Thus, tax rate applied in the appraisal was 16%. The Collected Fees of the Existing Agreements were taxed because they were recognized as revenue when they were collected in accordance with the Existing Agreements.

The nature of the revenue from the Film Library is quite special. It depends, to a great extent, on social behavior. It is impossible to forecast an exact amount of revenue in future. The revenue would be expected to experience volatile movement along with the economic and social changes in future. We therefore believe it is reasonable to project the revenue on an average basis under current circumstances and foreseeable trends.

#### OPINION OF VALUE

Based on the aforesaid investigation, analysis and appraisal method employed, it is our opinion that, as of 31st December, 2001, the fair market value of a 100 percent interest in the Film Library held by the Group is reasonably stated as HONG KONG DOLLARS TWENTY MILLION AND EIGHT HUNDRED THOUSAND ONLY (HKD20,800,000).

The opinion of value was based on generally accepted appraisal procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We hereby certify that we have neither present nor prospective interests in the Group or the value reported.

Yours faithfully,  
For and on behalf of  
**VIGERS HONG KONG LIMITED**  
**Joseph K. P. Leung**  
*MRICS AHKIS*  
*Registered Professional Surveyor*  
*Director*  
*Valuation Department*

*Note:* Mr. Joseph K.P. Leung, Chartered Surveyor, MRICS, AHKIS has conducted business appraisal in the Greater China region since 1993. Vigers Hong Kong Limited conducted an appraisal of two film libraries in Hong Kong in 1999 and 2001.

## LIST OF THE FILM LIBRARY

No.	Name of the films
1.	A Killer's Expiry Date (殺手再培訓)
2.	A Long And Forgotten Ghost Story (榕樹頭講鬼)
3.	A Sympathetic Killer (殺手情未冷)
4.	B For Boy (心思思)
5.	Beach Girl (水著・青春・救生)
6.	Blow Your Head Off (一槍打爆你個頭)
7.	Bodyguard For The Dead (屍家保鏢)
8.	Century Hero (千禧巨龍)
9.	Chinese Orthopedist And Spice Girls (跌打婆與辣妹)
10.	Crazy For Pig-Bone In Pot (情迷豬骨煲)
11.	Don't Let The Sun Go Down (我愛夏日長)
12.	Feng Shui And Gambling (風水賭神)
13.	Haunted Resort (東堤渡假鬼屋)
14.	Hot Rod (夜車之血青年)
15.	I Shoot Myself (陽性反應)
16.	I. C. Kill (網上怪談之兇靈對話)
17.	I'm Stone In Love With You (遠走高飛)
18.	It's a Mad, Mad, Mad, Mad, Kungfu World (大踢爆)
19.	Killing Lover (致命戀人)
20.	Last Sight From Death (垂死一眼)
21.	Ling's Story (現代女性)
22.	Love And Death On The Edge (特技人之冷暖心聲冷暖情)
23.	Mr. A? Mr. C? (A君?C君?)
24.	My Good Brother (好兄吾兄)
25.	Mysterious Story (1) Please Come Back (怪異集之你回來吧!)
26.	Mysterious Story (II) No Vacancy (怪異集之快離開吧!)
27.	No Time For Two (有殺錯冇愛錯)
28.	On And Bom (安仔與波子)
29.	Our Last Day (第 100 日)
30.	Outburst (老薑)
31.	The Pale Sky (沒有小鳥的天空)
32.	Pizza Express (薄餅速遞)
33.	Prison On Fire - Life Sentence (監獄風雲之終身犯)
34.	Prison On Fire - Plaintive Destiny (監獄風雲之夜囚)
35.	Schizophrenic (失約時空)
36.	Seamy Side of Life - A Black Chick (黑暗時代之無證妓女)
37.	Stupid (死蠢)
38.	Tales In The Wind (愛情傳真)
39.	Textiles At Heart (裳在我心間)
40.	The Evil Of A Woman's Heart (最毒婦人心)

No.	Name of the films
41.	The Hidden Enforcers (殺手狂龍)
42.	The House Of No Man (摩登姑婆屋)
43.	The Road Of Dead (屍家路)
44.	The Social Worker From The Edge (猛鬼女社工)
45.	The Three Brothers (串燒三兄弟)
46.	There's A Ghost In The Boy's Room (鬼咁過癮)
47.	Till Death Do Us Part (冥婚)
48.	To Be No.1 - Shepherd (金榜題名之流氓社工)
49.	Tough Cop Inside (內有惡警)
50.	Troublesome Night 5 (陰陽路五之一見發財)
51.	Troublesome Night 8 (陰陽路八之棺材仔)
52.	Troublesome Night 9 (陰陽路九之命轉乾坤)
53.	Troublesome Night 10 (陰陽路十之宣言咒)
54.	Troublesome Night 11 (陰陽路十一之撩鬼擺命)
55.	Troublesome Night 12 (陰陽路十二之美容屍)
56.	Troublesome Night 13 (陰陽路十三之花鬼)
57.	Two Courageous Ghosts (兩隻衰鬼唔識死)
58.	Unexpected Killing (殺手風雲之買大開細)
59.	Freaky Story (不寒而慄)
60.	Troublesome Night 14 (陰陽路十四之雙鬼拍門)

*Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.*

*The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 11th April, 2002 under the Companies Law. The Memorandum of Association (the "Memorandum") and the Articles of Association (the "Articles") comprise its constitution.*

## **1. MEMORANDUM OF ASSOCIATION**

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

## **2. ARTICLES OF ASSOCIATION**

The Articles were adopted on 22nd July, 2002. The following is a summary of certain provisions of the Articles:

### **(a) Directors**

#### *(i) Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) *Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) *Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) *Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) *Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the

Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board in respect of any contract or arrangement or other proposal in which he is to his knowledge materially interested but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving of any security or indemnity to the Director in respect of money lent or obligations incurred or undertaken by him at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving by the Company of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director has himself assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director is or is to be interested as a participant in the underwriting or sub-underwriting of the offer;

- (dd) any contract or arrangement in which the Director is interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his interest in shares or debentures or other securities of the Company;
- (ee) any contract or arrangement concerning any other company in which he is interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director together with any of his associates (as defined by the rules, where applicable, of any Designated Stock Exchange (as defined in the Articles)) is beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest is derived); or
- (ff) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.
- (vi) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) *Retirement, appointment and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not greater than one third) will retire from office by rotation provided that no Director holding office as chairman and/or managing director shall be subject to retirement by rotation, or be taken into account in determining the number of Directors to retire. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by a special resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board whereupon the Board resolves to accept such resignation;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) *Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(ix) *Proceedings of the Board*

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) *Register of Directors and Officers*

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) **Alterations to constitutional documents**

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) **Alteration of capital**

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; and
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or share premium account or any capital redemption reserve or other undistributable reserve in any way by special resolution.

**(d) Variation of rights of existing shares or classes of shares**

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

**(e) Special resolution-majority required**

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five (95) per cent. in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than twenty-one (21) clear days' notice has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

**(f) Voting rights (generally and on a poll) and right to demand a poll**

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including the right to vote individually on a show of hands.

(g) **Requirements for annual general meetings**

An annual general meeting of the Company must be held in each year, other than the year of incorporation (within a period of not more than 15 months after the holding of the last preceding annual general meeting or a period of 18 months from the date of incorporation, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) **Accounts and audit**

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons a summary financial statement derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards

referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

**(i) Notices of meetings and business to be conducted thereat**

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least twenty-one (21) clear days' notice in writing, and any other extraordinary general meeting shall be called by at least fourteen (14) clear days' notice (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five (95) per cent in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;

- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty (20) per cent in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.
- (j) **Transfer of shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

**(k) Power for the Company to purchase its own shares**

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

**(l) Power for any subsidiary of the Company to own shares in the Company**

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

**(m) Dividends and other methods of distribution**

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be

apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

**(n) Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

**(o) Call on shares and forfeiture of shares**

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty (20) per cent. per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty (20) per cent. per annum as the board determines.

**(p) Inspection of register of members**

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50 dollars, at the registered office or such other place in the Cayman Islands at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

**(q) Quorum for meetings and separate class meetings**

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

**(r) Rights of the minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

**(s) Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

**(t) Untraceable members**

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) **Subscription rights reserve**

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

**3. CAYMAN ISLANDS COMPANY LAW**

The Company is incorporated in the Cayman Islands subject to the Companies Law (Revised) of the Cayman Islands and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) **Operations**

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) **Share capital**

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums or shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

**(c) Financial assistance to purchase shares of a company or its holding company**

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

**(d) Purchase of shares and warrants by a company and its subsidiaries**

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member

of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

**(e) Dividends and distributions**

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m), above for further details).

**(f) Protection of minorities**

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the court shall direct.

Any shareholder of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the Company's memorandum and articles of association.

**(g) Management**

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

**(h) Accounting and auditing requirements**

A company shall cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the Company's affairs and to explain its transactions.

**(i) Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

**(j) Taxation**

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 7th May, 2002.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

**(k) Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

**(l) Loans to directors**

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

**(m) Inspection of corporate records**

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

**(n) Winding up**

A company may be wound up by either an order of the court or by a special resolution of its members. The court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

A company is placed in liquidation either by an order of the court or by a special resolution of its members. A liquidator is appointed whose duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting shall be called by Public Notice or otherwise as the Registrar of Companies may direct.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

**(o) Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five (75) per cent. in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Courts. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting shareholders of a United States corporation.

(p) **Take-overs**

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than ninety (90) per cent. of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court of the Cayman Island within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) **Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

#### **4. GENERAL**

Conyers Dill & Pearman, Cayman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law (Revised), is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

**A. FURTHER INFORMATION ABOUT THE COMPANY AND ITS SUBSIDIARIES****1. Incorporation**

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 11th April, 2002. The Company has established its head office and principal place of business in Hong Kong at 7th Floor, Cheong Tai Factory Building, 16 Tai Yau Street, San Po Kong, Kowloon, Hong Kong and has been registered with the Registrar of Companies in Hong Kong as an oversea company in Hong Kong under Part XI of the Companies Ordinance on 23rd July, 2002. Mr. Siu and Mr. Siu Kin Fat have been appointed as the authorised representatives of the Company for the acceptance of service of process in Hong Kong. As the Company is incorporated in the Cayman Islands, it is subject to the Companies Law. A summary of certain parts of the constitution of the Company and the relevant aspects of the Companies Law are set out in Appendix III to this prospectus.

**2. Changes in share capital of the Company**

- (a) As at the date of incorporation of the Company, its authorised share capital was HK\$30,000,000 divided into 3,000,000,000 Shares, of which one Share was allotted and issued to the initial subscriber, namely Codan Trust Company (Cayman) Limited, for cash at par.
- (b) On 2nd May, 2002, being the date of the first board meeting of the Company, the initial subscriber transferred the one Share to Mr. Siu Kin Fat. At the same board meeting of the Company, 14,999 Shares were allotted and issued fully paid, as to 4,999 Shares to Mr. Siu Kin Fat, 5,000 Shares to Mr. Siu Kuen Fat and 5,000 Shares to Mr. Siu.
- (c) On 22nd July, 2002, the Shares held by each of Mr. Siu, Mr. Siu Kin Fat and Mr. Siu Kuen Fat were transferred to Coxwell.

Save as aforesaid, there has been no alteration in the share capital of the Company since its incorporation.

**3. Written resolutions of the sole Shareholder passed on 22nd July, 2002**

Pursuant to the written resolutions of the sole Shareholder passed on 22nd July, 2002:

- (a) the Company approved and adopted the new articles of association;
- (b) the Directors were authorised to allot and issue an aggregate of 9,985,000 Shares, credited as fully paid at par by the Company, as to 6,688,334 Shares to Coxwell, as to 1,366,666 Shares to Baserich, as to 1,080,000 Shares to Amerose, as to 450,000 to Eagle Creek and as to 400,000 Shares to Dragon Master, as consideration for the acquisition of an aggregate of 30,000 shares of US\$1.00 each in B & S Group from Coxwell, Baserich, Amerose, Eagle Creek and Dragon Master respectively.

- (c) conditional on the same conditions as stated in the paragraph headed “Conditions of the Placing” in the section headed “Structure of the Placing” in this prospectus:
- (i) the Placing was approved and the Directors were authorised to allot and issue the Placing Shares;
  - (ii) the Over-allotment Option was approved and the Directors were authorised to effect the same and to allot and issue the Over-allotment Shares upon the exercise of the Over-allotment Option;
  - (iii) the rules of the Share Option Scheme were approved and adopted and the Directors were authorised to grant options to subscribe for Shares thereunder and to allot, issue and deal with the Shares pursuant to the exercise of options granted under the Share Option Scheme;
  - (iv) conditional on the share premium account of the Company being credited as a result of the Placing, the Directors were authorised to capitalise an amount of HK\$3,300,000 from the amount standing to the credit of the share premium account of the Company as a result of the Placing and to appropriate such amount as to capital to pay up in full at par 330,000,000 Shares for allotment and issue to the persons whose names appear on the register of members of the Company at the close of business on 22nd July, 2002, pro-rata (as nearly as possible without involving fractions) to its/their then existing shareholdings in the Company;
  - (v) a general unconditional mandate was given to the Directors to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend or other similar arrangement in accordance with the articles of association of the Company or pursuant to the exercise of the options which may be granted under the Share Option Scheme, Shares with an aggregate nominal value not exceeding (A) 20% of the aggregate nominal value of the share capital of the Company in issue and to be issued as mentioned herein; and (B) the aggregate nominal amount of Shares repurchased under the authority granted to the Directors as referred to in paragraph (vi) below, until the conclusion of the next annual general meeting of the Company, the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws of the Cayman Islands to be held, or the revocation or variation by an ordinary resolution of the Shareholders in a general meeting, whichever is earlier; and
  - (vi) a general unconditional mandate was given to the Directors authorising them to exercise all powers of the Company to repurchase Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue and to be issued as mentioned herein, until the conclusion of the next annual general meeting of the Company, the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws of the Cayman Islands to be held, or the revocation or variation by an ordinary resolution of the Shareholders in a general meeting, whichever is earlier.

Immediately following completion of the Placing and the Capitalisation Issue, the issued share capital of the Company will be HK\$4,000,000 divided into 400,000,000 Shares, all fully paid or credited as fully paid and 2,600,000,000 Shares will remain unissued. Other than the Shares issuable pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme, or the exercise of the general mandate to issue Shares referred to in sub-paragraph (v) above, there is no present intention to issue any of the authorised but unissued share capital of the Company and no issue of Shares which would effectively alter the control of the Company will be made without the prior approval of the Shareholders in a general meeting.

#### 4. Corporate reorganisation

The companies in the Group underwent a reorganisation in preparation for the listing of the Shares on GEM which involved the followings:

- (a) on 22nd July, 2002, Mr. Siu, Mr. Siu Kin Fat and Mr. Siu Kuen Fat made applications to direct B & S Group to allot and issue 15,000 shares of US\$1.00 each in the share capital of B & S Group to Coxwell, credited as fully paid, as consideration to set off against loans in the total amount of HK\$17,550,000 owing to each of them by B & S Group (“Debt Capitalisation”);
- (b) On 22nd July, 2002, Mr. Siu, Mr. Siu Kin Fat and Mr. Siu Kuen Fat transferred:
  - (i) a total of 15,000 shares of US\$1.00 each, being the entire issued share capital in Fleur Group;
  - (ii) a total of 3,000 shares of HK\$1.00 each, being the entire issued share capital in Best Faith;
  - (iii) a total of 10,000 shares of HK\$1.00 each, being the entire issued share capital in B & S Films Production; and
  - (iv) a total of 10,000 shares of HK\$1.00 each, being the entire issued share capital in B & S Films Distribution,

to B & S Group and B & S Group in return allotted and issued 14,999 shares in the share capital of B & S Group to Coxwell credited as fully paid as instructed by Mr. Siu, Mr. Siu Kin Fat and Mr. Siu Kuen Fat.

- (c) On 22nd July, 2002, the Company acquired an aggregate of 30,000 shares in the issued share capital of B & S Group, representing the entire issued share capital in B & S Group, from Dragon Master, Eagle Creek, Baserich, Amerose and Coxwell. In return, the Company allotted and issued an aggregate of 9,985,000 Shares, as to 6,688,334, 450,000, 400,000, 1,366,666 and 1,080,000 Shares to Coxwell, Eagle Creek, Dragon Master, Baserich and Amerose respectively, credited as fully paid.

## 5. Changes in share capital of the subsidiaries of the Company

The Company has the subsidiaries referred to in Appendix I to this prospectus.

The following alterations in the share capital of the Company's subsidiaries have taken place within the two years preceding the date of this prospectus:

- (a) On 2nd January, 2002, Fleur Group was incorporated in BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each.
- (b) On 20th March, 2002, B & S Group was incorporated in BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. One Share was allotted and issued fully paid to Coxwell on 22nd July, 2002.
- (c) On 22nd July, 2002, pursuant to the Debt Capitalisation referred to in sub-paragraph (a) of the paragraph headed "Corporate reorganisation" in this Appendix, 15,000 shares of B & S Group were allotted and issued to Coxwell credited as fully paid.
- (d) On 22nd July, 2002, Mr. Siu, Mr. Siu Kin Fat and Mr. Siu Kuen Fat transferred:
  - (i) a total of 15,000 shares of US\$1.00 each, being the entire issued share capital in Fleur Group;
  - (ii) a total of 3,000 shares of HK\$1.00 each, being the entire issued share capital in Best Faith;
  - (iii) a total of 10,000 shares of HK\$1.00 each, being the entire issued share capital in B & S Films Production; and
  - (iv) a total of 10,000 shares of HK\$1.00 each, being the entire issued share capital in B & S Films Distribution,

to B & S Group and B & S Group in return allotted and issued 14,999 shares in the share capital of B & S Group to Coxwell credited as fully paid as instructed by Mr. Siu, Mr. Siu Kin Fat and Mr. Siu Kuen Fat.

Save as aforesaid and as set out in the paragraph headed "Corporate reorganisation" under the section headed "Further information about the Company and its subsidiaries" in this Appendix, there has been no alteration in the share capital of any of the subsidiaries of the Company within the two years immediately preceding the date of this prospectus.

## 6. Repurchase by the Company of its own securities

The GEM Listing Rules permit companies with a primary listing on GEM to repurchase their equity securities on GEM subject to certain restrictions, the most important of which are summarised below:

### (a) Shareholders' approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company with a primary listing on GEM must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by special approval of a particular transaction. The Company's sole listing will be on GEM.

*Note:* Pursuant to a resolution in writing passed by the sole Shareholder on 22nd July, 2002, a general unconditional mandate (the "Repurchase Mandate") was given to the Directors authorising any repurchase by the Company of Shares on GEM, or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of up to 10% of the aggregate nominal value of the share capital of the Company in issue and to be issued as mentioned in this prospectus, such mandate to expire at the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the articles of association or applicable laws of the Cayman Islands to be held, or when revoked or varied by an ordinary resolution of the Shareholders in a general meeting of the Company, whichever shall first occur.

### (b) Reasons for repurchases

The Directors believe that it is in the best interests of the Company and its Shareholders to have general authority from the Shareholders to enable the Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of the Company and its assets and/or its earnings per Share and will only be made when the Directors believe that such repurchases will benefit the Company and its Shareholders.

### (c) Funding of repurchases

In repurchasing securities, the Company may only apply funds legally available for such purpose in accordance with its memorandum of association and articles of association, the GEM Listing Rules and the applicable laws of the Cayman Islands.

Based on current financial position of the Group as disclosed in this prospectus, the Directors consider that there would be a material adverse impact on the working capital and on the gearing position of the Company if the proposed repurchases were to be carried out in full during the proposed repurchase period. However, the Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Group or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Group.

(d) General

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their respective associates currently intends to sell any Shares to the Company or any of its subsidiaries.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules and the applicable laws of the Cayman Islands .

No connected person (as defined in the GEM Listing Rules) has notified the Company that he has a present intention to sell Shares to the Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

If as a result of a securities repurchase, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of the Company and may become obliged to make a mandatory offer in accordance with rule 26 of the Hong Kong Code on Takeovers and Mergers. The Directors are not aware of any consequences of repurchases which would give rise to an obligation to make a mandatory offer under the Hong Kong Code on Takeovers and Mergers.

(e) Share capital

Exercise in full of the Repurchase Mandate, on the basis of 400,000,000 Shares in issue immediately after completion of the Placing and the Capitalisation Issue could accordingly result in up to 40,000,000 Shares being repurchased by the Company during the course of the period prior to the date of which such Repurchase Mandate expires or terminates as mentioned in sub-paragraph (c)(vi) in the paragraph headed "Written resolutions of the sole Shareholder passed on 22nd July, 2002" above in this Appendix.

## **B. FURTHER INFORMATION ABOUT THE BUSINESS OF THE GROUP**

### **1. Summary of material contracts**

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years immediately preceding the date of this prospectus and are or may be material:

- (a) three sets of instruments of transfer and bought and sold notes dated 22nd July, 2002 whereby Mr. Siu, Mr. Siu Kin Fat and Mr. Siu Kuen Fat transferred 10,000 shares of HK\$1.00 each in B & S Films Production to B & S Group, being the entire issued share capital of B & S Films Production and the consideration has been satisfied by the allotment and issue of shares in B & S Group to Coxwell at the direction of Mr. Siu, Mr. Siu Kin Fat and Mr. Siu Kuen Fat;

- (b) three sets of instruments of transfer and bought and sold notes dated 22nd July, 2002 whereby Mr. Siu, Mr. Siu Kin Fat and Mr. Siu Kuen Fat transferred 10,000 shares of HK\$1.00 each in B & S Films Distribution to B & S Group, being the entire issued share capital of B & S Films Distribution and the consideration has been satisfied by the allotment and issue of shares in B & S Group to Coxwell at the direction of Mr. Siu, Mr. Siu Kin Fat and Mr. Siu Kuen Fat;
- (c) three sets of instruments of transfer and bought and sold notes dated 22nd July, 2002 whereby Mr. Siu, Mr. Siu Kin Fat and Mr. Siu Kuen Fat transferred 3,000 shares of HK\$1.00 each in Best Faith to B & S Group, being the entire issued share capital of Best Faith and the consideration which has been satisfied by the allotment and issue of shares in B & S Group to Coxwell at the direction of Mr. Siu, Mr. Siu Kin Fat and Mr. Siu Kuen Fat;
- (d) three sets of instruments of transfer dated 22nd July, 2002 whereby Mr. Siu, Mr. Siu Kin Fat and Mr. Siu Kuen Fat transferred 15,000 shares of US\$1.00 each in Fleur Group to B & S Group, being the entire issued share capital of Fleur Group, and the consideration has been satisfied by the allotment and issue of shares in B & S Group to Coxwell at the direction of Mr. Siu, Mr. Siu Kin Fat and Mr. Siu Kuen Fat;
- (e) an agreement dated 22nd July, 2002, between (i) Coxwell, (ii) Dragon Master, (iii) Eagle Creek, (iv) Baserich, (v) Amerose ((i) to (v) together the “Sellers”) and (vi) the Company whereby the Sellers agreed to transfer their respective shareholdings in B & S Group, representing the entire issued share capital of B & S Group, to the Company, and the Company in consideration thereof agreed to allot and issue 6,688,334, 400,000, 450,000, 1,366,666 and 1,080,000 Shares respectively credited as fully paid at par;
- (f) a deed of indemnity dated 29th July, 2002 given by Mr. Siu, Mr. Siu Kuen Fat, Mr. Siu Kin Fat and Coxwell in favour of the Company and its subsidiaries being the deed of indemnity containing indemnities in respect of, inter alia, Hong Kong estate duty referred to in the paragraph headed “Estate duty and tax indemnity” under the section headed “Other information” in this Appendix;
- (g) the Underwriting Agreement; and
- (h) the Sponsor Agreement.

## 2. Intellectual property rights

As at the Latest Practicable Date, the Group has applied for registration of the following trade/service marks, the registration of which has not yet been granted:

Trade/service mark	Class	Application no.	Date of application	Place of application
	9	2002-05209	15th April, 2002	Hong Kong
	41	2002-05208	15th April, 2002	Hong Kong

### • *Brief description of the goods/services covered by Classes 9 and 41:*

Class 9 — Photographic, cinematographic apparatus and instruments for the producing, recording, transmission, broadcasting, reception, storage, display or reproduction of data, sound or images; apparatus for recording, transmission or reproduction of data, sound or images, sound or images; magnetic data carriers and recording disc beating data, sound or images; cinematographic films; parts and fittings for all the aforesaid goods, all included in Class 9.

Class 41 — Entertainment services in the nature of the production of movies by using 35mm filming technique and the digital video filming technique and distribution of broadcasting rights of Hong Kong and overseas motion pictures; all included in Class 41.

Save as aforesaid, there are no other trade or service marks, patents, other intellectual or industrial property rights which are material in relation to the Group's business.

## C. FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT AND STAFF

### 1. Disclosure of interests

(a) Save as disclosed herein and in the paragraph headed "Summary of material contracts" under the section headed "Further information about the business of the Group" in this Appendix, none of the Directors or the experts named in the paragraph headed "Consents of experts" under the section headed "Other information" in this Appendix has any direct or indirect interest in the promotion of the Company or in any assets acquired or disposed of by or leased to any member of the Group or is proposed to be acquired or disposed of by or leased to any member of the Group within the two years immediately preceding the date of this prospectus.

(b) Save as disclosed in the paragraph headed "Summary of material contracts" under the section headed "Further information about the business of the Group" in this Appendix, none of the Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group.

## 2. Particulars of service contracts

Each of the executive Directors, namely Mr. Siu, Mr. Siu Kuen Fat and Mr. Siu Kin Fat, has entered into a service contract with the Company for a term of three years to be commenced on the Listing Date. Under the service contracts, after each completed year of service, the remuneration payable to each of them may, subject to the discretion of the Board, and they will each be entitled to a discretionary bonus provided that the audited combined/consolidated profit after taxation and minority interests (and after the payment of such bonus) but before extraordinary items (the "Profit") of the Group for the relevant year exceeds HK\$1 million and further that the total amount of bonuses payable to all Directors for such year shall not exceed 2% of the Profit. Each of the executive Directors will also be entitled to all reasonable out-of-pocket expenses and travelling, hotel and entertainment expenses incurred by him in or about the discharge of his duties.

## 3. Directors' remuneration

Remuneration and benefits in kind of approximately HK\$180,000 in aggregate were paid and granted by the Group to the Directors in respect of the financial year ended 30th June, 2002.

Under the current arrangements, the Directors will be entitled to receive remuneration which, for the year ending 30th June, 2003, is expected to be approximately HK\$1.2 million in aggregate, excluding the discretionary bonuses payable to the Directors.

## 4. Interests of Directors in the share capital of the Company after the Placing and the Capitalisation Issue

Immediately following completion of the Placing and the Capitalisation Issue, the Directors will have the following interests in the shares of the Company or its associated corporations (within the meaning of the SDI Ordinance) which will have to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they are taken or deemed to have under section 31 of, or Part 1 of the Schedule to, the SDI Ordinance) or which will be required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein or which will be required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, once the Shares are listed:

Name	Number of Shares	Type of interest	Approximate percentage of holding
Mr. Siu ( <i>note</i> )	200,400,000	corporate interest	50.1
Mr. Siu Kuen Fat ( <i>note</i> )	200,400,000	corporate interest	50.1
Mr. Siu Kin Fat ( <i>note</i> )	200,400,000	corporate interest	50.1

*Note:* These shares are held by Coxwell which is beneficially owned as to approximately 33.33%, 33.33% and 33.33% by Mr. Siu, Mr. Siu Kuen Fat and Mr. Siu Kin Fat respectively.

Immediately following completion of the Placing and the Capitalisation Issue and assuming that the Over-allotment Option is not exercised and taking no account of the Shares which may be taken up under the Placing, the substantial holders of 10% or more of the Shares then in issue will be:

Name	Number of Shares	Approximate percentage of holding
Coxwell ( <i>Note 1</i> )	200,400,000	50.1
Baserich ( <i>Note 2</i> )	40,800,000	10.2

*Notes:*

- Coxwell is beneficially owned as to approximately 33.33%, 33.33% and 33.33% by Mr. Siu, Mr. Siu Kuen Fat and Mr. Siu Kin Fat respectively. Please refer to the section headed “Initial management, substantial and significant shareholders” in this prospectus for further details.
- The beneficial owners of Baserich are as follows:

Name of shareholders of Baserich	Approximate percentage of shareholding %
Mr. Lee Tat Chiu	43.9
Mr. Hung	34.2
Mr. Lee Tat Keung	14.6
Mr. Poon King Hei	7.3
	<hr style="width: 100%; border: 0.5px solid black;"/>
	100.0

Save for Mr. Hung, the shareholders of Baserich are independent third parties not connected with any of the Directors, chief executive of the Company, the Initial Management Shareholders or the Substantial Shareholders or any of their respective associates and none of them has been involved in the management or operation of the Group and their acquisition of the indirect interest in the Company was not funded directly or indirectly by any connected person (as defined in the GEM Listing Rules) of the Group. All of the shareholders of Baserich are independent of and not connected with each other. Baserich is an initial management shareholder (as defined in the GEM Listing Rules). Each of the shareholders of Baserich has undertaken to the Stock Exchange, the Company, the Sponsor and the Underwriters that he will not dispose of (or enter into any agreement to dispose of) his direct or indirect interest in the issued share capital of Baserich during the 12-Month Lock-up Period.

## 5. Personal guarantees

The executive Directors together have provided guarantees in favour of certain banks for debts and liabilities due by certain members of the Group. Such guarantees are expected to be released and replaced by corporate guarantees from the Company after listing of the Shares on GEM.

## 6. Agency fees or commission

Save as disclosed in this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries within the two years preceding the date of this prospectus.

## 7. Disclaimers

Save as disclosed in this prospectus:

- (a) none of the Directors or chief executive of the Company or their respective associates has any interest in the shares or debentures of the Company or any associated corporation (within the meaning of the SDI Ordinance) which will have to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (or any interest which he will be taken or deemed to have under section 31 of, or Part 1 of the Schedule to, the SDI Ordinance) or which will be required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein or which will be required, pursuant to Rules 5.04 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, once the Shares are listed;
- (b) save as disclosed in the paragraph headed “Particulars of service contracts” above, there are no existing or proposed service contracts (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) between the Directors and any member of the Group;
- (c) none of the Directors or the experts named in the paragraph headed “Consents of experts” under the section headed “Other information” in this Appendix has any direct or indirect interest in the promotion of, or in any asset which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to, or are proposed to be acquired or disposed of by or leased to, any member of the Group;
- (d) none of the Directors is materially interested in any contract or arrangement subsisting as at the date of this prospectus which is significant in relation to the business of the Group taken as a whole;

- (e) taking no account of Shares which may be taken up under the Placing and the Capitalisation Issue or any options which may be granted under the Share Option Scheme, none of the Directors knows of any person (not being a Director or chief executive of the Company) who will immediately following completion of the Placing and the Capitalisation Issue be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group; and
- (f) none of the experts named in the paragraph headed “Consents of experts” under the section headed “Other information” in this Appendix has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

#### **D. SHARE OPTION SCHEME**

##### **Summary of the terms of the Share Option Scheme**

###### **(a) Purpose**

The purpose of the Share Option Scheme is to enable the Company to grant options to employees, executives or officers of the Company or any of its subsidiaries (including executive and non-executive directors of the Company or any of its subsidiaries) and any suppliers, consultants or advisers who will provide or have provided services to the Company or any of its subsidiaries as incentives and rewards for their contribution to the Company or such subsidiaries (the “Eligible Participants”).

###### **(b) Who may join**

The Board may, at its discretion, offer the Eligible Participants options to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with sub-paragraph (f) below. Upon acceptance of the option, the grantee shall pay HK\$1.00 to the Company by way of consideration for the grant.

###### **(c) Consideration for granting of share options under the Share Option Scheme**

The Directors will consider the following factors in granting of share options under the Share Option Scheme:

- (i) whether such person is qualified as an eligible person under the rules of the scheme;
- (ii) the extent of contribution made by such person or anticipated to be made by such person to the Company;
- (iii) whether the position of the Company at the relevant time is suitable for granting the option;

- (iv) whether any performance target should be imposed as a condition for the exercise of such option;
  - (v) whether the amount of option to be granted to such person is in line with the rule of the scheme;
  - (vi) the exercise price, expiry date, number, commencement date and such other terms and conditions attached to the option to be granted; and
  - (vii) whether it is in the interest of the Company and its shareholders taken as a whole to grant such options.
- (d) Maximum number of Shares

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme(s) of the Company must not exceed 10% of the Shares in issue on the date of approval and adoption of the Share Option Scheme by the Shareholders. Shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of such share option scheme(s) will not be counted for the purpose of the 10% limit.

Subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the GEM Listing Rules from time to time, the Board may:

- (i) refresh this limit at any time to 10% of the Shares in issue as at the date of the approval by the Shareholders in general meeting (options previously granted under any share option schemes of the Company (including those outstanding, cancelled, lapsed in accordance with such schemes or exercised options) will not be counted for the purpose of calculating the limit as refreshed); and/or
- (ii) grant options beyond the 10% limit to the Eligible Participants specifically identified by the Board whereupon the Company shall send a circular to the Shareholders containing, amongst others, a generic description of the specified participants who may be granted such options, the number and terms of the options to be granted and the purpose of granting options to the specified participants with an explanation as to how the options serve such purpose.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme(s) of the Company at any time shall not exceed 30% of the Shares in issue from time to time. No options shall be granted under any scheme(s) of the Company or any of its subsidiaries if this will result in the 30% limit being exceeded.

(e) Maximum number of options to any one individual

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme(s) of the Company (including exercised, cancelled and outstanding options) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant.

Any further grant of options in excess of this 1% limit shall be subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting with such Eligible Participant and his/her associates abstaining from voting and/or other requirements prescribed under the GEM Listing Rules from time to time.

(f) Price of Shares

The subscription price for a Share in respect of any particular option granted under the Share Option Scheme (which shall be payable upon exercise of the option) shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of (i) the closing price of the Shares as stated in GEM's daily quotations sheet on the date of grant, which must be a business day (and for this purpose shall be taken to be the date of the Board meeting at which the Board proposes to grant the options); (ii) the average of the closing prices of the Shares as stated in GEM's daily quotations sheet for the five business days immediately preceding the date of grant; and (iii) the nominal value of a Share.

(g) Granting options to connected persons

Any grant of options to a Director, chief executive or substantial Shareholder of the Company or any of its associates is required to be approved by the independent non-executive Directors (excluding the independent non-executive Director who is the grantee of the options).

If the Company proposes to grant options to a substantial Shareholder (as defined in the GEM Listing Rules) of the Company or any independent non-executive Director or their respective associates which will result in the number of Shares issued and to be issued upon exercise of options granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of the offer of such grant:

- (i) representing in aggregate over 0.1% of the Shares in issue on the date of the offer; and
- (ii) having an aggregate value in excess of HK\$5 million, based on the closing price of the Shares at the date of each offer,

such further grant of options will be subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting on a poll at which all connected persons (as defined in the GEM Listing Rules) of the Company shall abstain from voting, and/or such other requirements prescribed under the GEM Listing Rules from time to time. A connected person (as defined in the GEM Listing Rules) of the Company will be permitted to vote against the grant only if his intention to do so has been stated in the circular.

(h) Restrictions on the time of grant of options

A grant of options may not be made after a price-sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price-sensitive information has been published pursuant to the GEM Listing Rules. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of (i) the date of the Board meeting for the approval of the Company's annual, interim or quarterly results; and (ii) the deadline for the Company to publish its quarterly, interim or annual results announcement under the listing agreement and ending on the date of actual publication of the results announcement.

(i) Rights are personal to grantee

An option is personal to the grantee and the grantee may not in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any option or attempt to do so.

(j) Time of exercise of option

There is no general requirement that an option must be held for any minimum period before it can be exercised but the Board is empowered to impose at its discretion any such minimum period at the time of grant of any particular option. The date of grant of any particular option is the date when the duplicate offer document constituting acceptance of the option duly signed by the grantee, together with a remittance in favour of the Company of HK\$1.00 by way of consideration is received by the Company, such date must be on or before the 28th day after the option is offered to the relevant grantee. The period during which an option may be exercised will be determined by the Board at its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the Share Option Scheme. Subject to earlier termination by the Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of 10 years after the date of its adoption by the Shareholders by ordinary resolution at a general meeting.

(k) Performance Target

The Board has the discretion to require a particular grantee to achieve certain performance targets specified at the time of grant before any option granted under the Share Option Scheme can be exercised.

(l) Rights on ceasing employment and death

- (i) If the grantee is under employment with the Company and/or any of its subsidiaries, in the event of the grantee ceasing to be an Eligible Participant for any reason other than his ill-health, injury or disability (all evidenced to the satisfaction of the Board), death or the termination of his employment on one or more of the grounds specified in paragraph (m) below, the grantee may exercise the option up to his entitlement at the date of cessation of his employment (to the extent not already exercised) within the period of two months following the date of such cessation, which date shall be the last actual working day with the Company or the relevant subsidiary whether salary is paid in lieu of notice or not (or such longer period as the Board may determine); and
- (ii) if the grantee is under employment with the Company and/or any of its subsidiaries, in the event that the grantee ceases to be an Eligible Participant by reason of ill-health, injury or disability (all evidenced to the satisfaction of the Board), death and none of the events which would be a ground for termination of his employment under paragraph (m) below has occurred, the legal personal representative(s) of the grantee shall be entitled to exercise the option in full (to the extent not already exercised) on or before the earlier of (i) the last day in the 12-month period commencing from the date of ceasing to be an Eligible Participant or death (or such longer period as the Board may determine) or (ii) the relevant expiry date of the option.

(m) Lapse of option on dismissal

If the grantee of an option is under employment with the Company and/or any of its subsidiaries and ceases to be an Eligible Participant by reason of being dismissed on the grounds that he or she has been guilty of serious misconduct, or has been convicted of any criminal offence involving his or her integrity or honesty or (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his or her employment at common law or pursuant to any applicable laws or under the grantee's service contract with the Company or the relevant subsidiary, his or her option will lapse and not be exercisable on the date of termination of his employment.

(n) Rights on winding-up

In the event a notice is given by the Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up of the Company, the Company shall on the same date as or soon after it despatches such

notice to each member of the Company give notice thereof to all grantees and thereupon, each grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his options at any time not later than two business days prior to the proposed general meeting of the Company by giving notice in writing to the Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon the Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

(o) Rights on takeover

If a general offer (whether by way of take-over offer, share repurchase offer or scheme of arrangement or otherwise in like manner) is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or in concert with the offeror). If such offer, having been approved in accordance with applicable laws and regulatory requirements becomes, or is declared unconditional, the grantee (or his legal personal representative(s)) shall be entitled to exercise his option in full (to the extent not already exercised) at any time within 14 days after the date on which such general offer becomes or is declared unconditional.

(p) Rights on compromise or arrangement between the Company and its members or creditors

If, pursuant to the Companies Law, a compromise or arrangement between the Company and its members and/or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies, the Company shall give notice thereof to all the grantees (together with a notice of the existence of the provisions of this paragraph) on the same day as it despatches to members and/or creditors of the Company a notice summoning the meeting to consider such a compromise or arrangement, and thereupon each grantee shall be entitled to exercise all or any of his options in whole or in part at any time prior to 12:00 noon (Hong Kong time) on the business day immediately preceding the date of the meeting directed to be convened by the relevant court for the purposes of considering such compromise or arrangement and if there are more than one meeting for such purpose, the date of the first meeting. With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. The Board shall endeavour to procure that the Shares issued as a result of the exercise of options in such circumstances shall for the purposes of such compromise or arrangement form part of the issued share capital of the Company on the effective date thereof and that such Shares shall in all respects be subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the relevant court (whether upon the terms presented to the relevant court or upon any other terms as may be approved by such court)

the rights of the grantees to exercise their respective options shall with effect from the date of the making of the order by the relevant court be restored in full) as if such compromise or arrangement had not been proposed by the Company and no claim shall lie against the Company or any of its officers for any loss or damage sustained by any grantee as a result of the aforesaid suspension.

(q) Lapse of the options

An option will lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the expiry date relevant to that option;
- (ii) the expiry of any of the periods referred to in paragraphs (l) and (o) above;
- (iii) the date of commencement of the winding-up of the Company (as determined in accordance with the applicable laws) as referred to in paragraph (n) above;
- (iv) the date on which the scheme for the reconstruction of the Company or its amalgamation with any other company or companies, becomes effective as referred to in paragraph (p) above;
- (v) in the event the grantee is under employment with the Company and/or any of its subsidiaries, the date on which the grantee ceases to be an Eligible Participant by reason of the termination of his employment on any one or more of the grounds specified in paragraph (m) above. A resolution of the Board or the board of directors of the relevant subsidiary to the effect that the employment of a grantee has or has not been terminated on one or more of the grounds specified in paragraph (m) above shall be conclusive;
- (vi) the date on which the grantee ceases to be an Eligible Participant on or after committing any act of bankruptcy or becoming insolvent or making any arrangements or composition with his or her creditors generally; or
- (vii) the date on which the grantee commits a breach of the prohibitions specified in paragraph (i) above or the options are cancelled in accordance with paragraph (u) below.

(r) Ranking of Shares

The Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or such other person nominated by the grantee) as the holder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of

options will rank pari passu in all respects with and shall have the same voting, dividend, transfer and other rights, including those arising on a liquidation of the Company as attached to the other fully-paid Shares in issue on the date of issue.

(s) Effect of alterations to capital

In the event of a capitalisation issue, rights issue, sub-division or consolidation of shares or reduction of capital whilst any option may become or remains exercisable, such corresponding alterations (if any) shall be made to the number of Shares subject to any outstanding options and/or the exercise price of each outstanding option and/or the number of Shares in respect of which any further options may be granted as the auditors of the Company or the independent financial adviser shall certify in writing to the Board to be in their opinion fair and reasonable and in compliance with Rule 23.03(13) of the GEM Listing Rules and the note thereto. Any such alterations will be made on the basis that a grantee shall have the same proportion of the issued share capital of the Company for which any grantee of an option is entitled to subscribe pursuant to the options held by him before such alteration and the aggregate subscription price payable on the full exercise of any option is to remain as nearly as possible the same (and in any event not greater than) as it was before such event. No such alteration will be made the effect of which would be to enable a Share to be issued at less than its nominal value. The issue of securities as consideration in a transaction is not to be regarded as a circumstance requiring any such alterations.

(t) Alteration of Share Option Scheme

The terms of the Share Option Scheme may be altered in any respect by resolution of the Board except that:

- (i) any alteration to the advantage of the grantees or the Eligible Participants (as the case may be) in respect of the matters contained in Rule 23.03 of the GEM Listing Rules;
- (ii) any material alteration to the terms and conditions of the Share Option Scheme or any change to the terms of options granted (except any alterations which take effect automatically under the terms of the Share Option Scheme),

shall first be approved by the Shareholders in general meeting provided that if the proposed alteration shall adversely affect an option granted or agreed to be granted prior to the date of alteration, such alteration shall be further subject to the grantees' approval in accordance with the terms of the Share Option Scheme. The amended terms of the Share Option Scheme shall still comply with Chapter 23 of the GEM Listing Rules and any change to the authority of the Board in relation to any alteration to the terms of the Share Option Scheme must be approved by Shareholders in general meeting.

(u) Cancellation of options

Any cancellation of options granted but not exercised must be approved by the grantee of the relevant options. Where the Company cancels options and issues new ones to the same grantee, the issue of such new options may only be made under the Share Option Scheme with available unissued options (excluding the cancelled options) within the limit approved by the Shareholders.

(v) Termination of the Share Option Scheme

The Company by resolution in general meeting or the Board may at any time resolve to terminate the Share Option Scheme and in such event no further option shall be offered but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior to the termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options granted prior to such termination at the time of termination shall continue to be valid and exercisable in accordance with the provisions of the Share Option Scheme.

(w) Condition of the Share Option Scheme

The Share Option Scheme is conditional on (i) the GEM Listing Committee granting approval of such scheme and the grant of options thereunder and granting the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of options granted pursuant thereto; and (ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any conditions by the Sponsor on behalf of the Underwriters) and not being terminated in accordance with its terms or otherwise.

(x) Disclosure in annual and interim reports

The Company will disclose details of the Share Option Scheme in its annual and interim reports including the number of options, date of grant, exercise price, exercise period, vesting period and (if appropriate) a valuation of options granted during the financial year/period in the annual/interim reports in accordance with the GEM Listing Rules in force from time to time.

(y) Present status of the Share Option Scheme

As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the GEM Listing Committee for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of the options granted under the Share Option Scheme.

**E. OTHER INFORMATION****1. Estate duty and tax indemnity**

Each of Mr. Siu, Mr. Siu Kin Fat, Mr. Siu Kuen Fat and Coxwell has given joint and several indemnities in favour of the Company (for itself and as trustee for its subsidiaries) in connection with, taxation and, Hong Kong estate duty which might be payable by any member of the Group by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance Chapter 111 of the Laws of Hong Kong) to any member of the Group on or before the date on which the Placing becomes unconditional and other taxation which may be payable by any member of the Group on or before the date on which the Placing becomes unconditional save in certain circumstances including where provision has been made for such taxation in the audited accounts of any member of the Group for the two years ended 30th June, 2001 and the six months ended 31st December, 2001.

The Directors have been advised that no material liability for estate duty is likely to fall on any member of the Group in the Cayman Islands, Hong Kong or BVI, being the jurisdiction in which one or more of the members of the Group are incorporated.

**2. Litigation**

No member of the Group is engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

**3. Sponsor**

Kim Eng Capital has made an application on behalf of the Company to the GEM Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, and any Shares falling to be issued pursuant to the exercise of the Over-allotment Option or options which may be granted under the Share Option Scheme.

**4. Preliminary expenses**

The estimated preliminary expenses of the Company are approximately US\$2,650 and are payable by the Company.

**5. Promoter**

The promoter of the Company is Mr. Siu. Save as disclosed in this prospectus, no amount or benefit has been paid or given to the promoter in connection with the Placing or related transactions described in this prospectus within the two years preceding the date of this prospectus.

## 6. Consents of experts

Each of Kim Eng Capital, Ernst & Young, Vigers Hong Kong Limited and Conyers Dill & Pearman, Cayman has given and has not withdrawn its written consents to the issue of this prospectus with copies of its reports, valuation certificates, letters, opinions or summaries of opinions (as the case may be) and the references to its names included herein in the form and context in which they are respectively included.

The following are the qualifications of the experts who have given opinion or advice to the Group and which opinion or advice is contained in this prospectus:

Name	Qualification
Kim Eng Capital	registered investment adviser
Ernst & Young	certified public accountants
Vigers Hong Kong Limited	property valuer and other asset valuer
Conyers Dill & Pearman, Cayman	Cayman Islands attorneys-at-law

## 7. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

## 8. Miscellaneous

(a) Save as disclosed in this prospectus:

- (i) within the two years preceding the date of this prospectus, no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (ii) within the two years preceding the date of this prospectus, no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and
- (iii) there has been no material adverse change in the financial and trading position or prospects of the Group since 31st December, 2001.

- (b) The Company has no founder shares, management shares or deferred shares.
- (c) All necessary arrangements have been made to enable the Shares to be admitted into CCASS.
- (d) The particulars of the Vendor are set out below:

<b>Name</b>	<b>Description</b>	<b>Address</b>	<b>Number of Sale Shares</b>
Coxwell	a company incorporated in BVI with limited liability	Sea Meadow House Blackburne Highway (P.O. Box 116) Road Town, Tortola British Virgin Islands	40,000,000

**1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG**

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were the written consents referred to in the paragraph headed “Consents of experts” under the section headed “Other information” in Appendix IV to this prospectus, particulars of the Vendor of the Sale Shares under the paragraph headed “Miscellaneous” in Appendix IV to this prospectus and copies of the material contracts referred to in the paragraph headed “Summary of material contracts” under the section headed “Further information about the business of the Group” in Appendix IV to this prospectus.

**2. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Sidley Austin Brown and Wood at 49th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong, and Law Office of Y.S. Lai, at 20th Floor, Winbase Centre, 208 Queen’s Road Central, Central, Hong Kong, during normal business hours up to and including 20th August, 2002:

- the memorandum and articles of association of the Company;
- the accountants’ reports prepared by Ernst and Young, the text of which is set out in Appendix I to this prospectus;
- the audited financial statements which has been prepared for each of the companies comprising the Group for each of the two years ended 30th June 2001 and the six months ended 31st December, 2001;
- the letter, summary of valuation and valuation certificates relating to the property interest and other asset of the Group prepared by Vigers Hong Kong Limited, the texts of which are set out in Appendices IIA and IIB to this prospectus;
- the rules of the Share Option Scheme;
- the Companies Law;
- the letters of advice prepared by Conyers Dill & Pearman, Cayman summarising certain aspects of the Cayman Islands company law referred to in Appendix III to this prospectus;
- the service contracts with each of the executive Directors referred to in the paragraph headed “Particulars of service contracts” under the section headed “Further information about Directors, management and staff” in Appendix IV to this prospectus;
- the material contracts referred to in the paragraph headed “Summary of material contracts” under the section headed “Further information about the business of the Group” in Appendix IV to this prospectus;

- the written consents referred to in the paragraph headed “Consents of experts” under the section headed “Other information” in Appendix IV to this prospectus; and
- the particulars of the Vendor of the Sale Shares referred to in the paragraph headed “Miscellaneous” in Appendix IV to this prospectus.