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**EMPEROR ENTERTAINMENT GROUP LIMITED**

**英皇娛樂集團有限公司**

(Incorporated in Bermuda with limited liability)



**Third Quarterly Report**

**2000**

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (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 rising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

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*This announcement, for which the directors of Emperor Entertainment Group Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## **CHAIRPERSON'S STATEMENTS**

For the three months and nine months ended 31st December, 2000, the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") recorded a profit of approximately HK\$1.5 million and a loss of approximately HK\$1.5 million as compared with a loss of approximately HK\$1.6 million and HK\$21.8 million respectively for the corresponding periods in the previous year. During the same periods, turnover of the Group soared by two-folds and three-folds to approximately HK\$32.3 million and HK\$83.1 million respectively as compared with the previous corresponding periods.

## **OPERATION REVIEW**

The business of the Group mainly consists of music production and distribution, artiste management and event production. The Group managed to turn from the red to making a profit for the three months ended 31st December, 2000. The management attributed such remarkable improvement to its progressive expansion and development strategies.

### **Music Production and Distribution**

Turnover for the nine months ended 31st December, 2000 amounted to approximately HK\$63.0 million which more than doubled that of the previous corresponding period both in terms of the sales of albums and the licensing of songs and catalogues. The number of releases during the period amounted to 56 releases which also more than doubled that of the previous period, while the number of albums sold amounted to approximately 670,000 which marked a 98% increase. The releases covered both albums of the Group's contract artistes as well as the famous and upcoming overseas artistes to suit the different customer segments.

The management attributed the success to its strong artiste base, large repertoire of songs and lyrics and effective marketing strategies. During the period under review, the Group and its artistes won 41 awards including the prestigious 2000 Syndicated Annual Music Award, 2000 Syndicated Outstanding Performance Award, CR2 903 Ultimate Song of the Year Award, Metro Radio's Hit Awards 2000, TVB JSG Outstanding Performance of the Year Gold Award and RTHK Top Ten Chinese Gold Songs Awards as compared with 19 awards for the previous corresponding period.

To sustain its competitive edge, the Group intended to continue sourcing quality artistes as well as artistes with good potentials to build up a strong artiste roster and repertoire, while at the same time expanding its market overseas. The Group had already established its presence in Taiwan by establishing a branch and had been exploring opportunity to further penetrate the market of the People's Republic of China (the "PRC"). The Group would also continue to license quality international records for distribution in the Greater China Region to meet the diverse and volatile customers' taste.

## **Artiste Management**

For the nine months ended 31st December, 2000, the artiste management fee income of the Group increased by almost five-folds to approximately HK\$13.1 million as compared to the previous corresponding period. The management attributed this to its solid artiste base coupled with the strong foothold and connection developed by the Group over the years.

As its contract artistes gained in popularity and fame, the Group saw an increasing number of film casting, overseas concert tours and advertisement endorsement jobs for its artistes during the period under review. Such engagements represented the key drivers of the revenue growth in this business sector.

During the period under review, the Group organized a Super Talent Quest (“STQ”) which not only helped to enhance the brand equity of the Group, but also enabled the Group to source promising artistes to strengthen its artiste roster. There were 22 artistes under the Group as at 31st December, 2000 as compared to 10 artistes at the end of 1999. The newly recruited artistes included well-established artistes such as Mr. Eason Chan and Mr. Ekin Cheng, as well as green but promising artistes such as Mr. Edison Chen and members of Swing. The management might consider to continue with the STQ to help sustain a healthy growth in its artiste roster.

## **Event Production**

The gross profit and loss from this business sector turned from a loss of HK\$0.6 million for the nine months period ended 31st December, 1999 to a profit of approximately HK\$1.4 million for the same period ended 31st December, 2000. With the Group’s increasing experience in this industry, the Group started to organize concerts on its own during the period, which greatly improved the profit margin. There were 5 concerts organized by the Group during the period under review, with 2 being self-organized and 3 being co-organized with other parties.

## **FINANCIAL RESOURCES**

As a result of the initial public offering, the Company raised net proceeds of approximately HK\$89 million. The over-allotment option granted to the placing underwriters has not been exercised by BNP Paribas Peregrine Securities Limited. The Company intended to use the proceeds to further develop and expand its core business, but such proceeds had not yet been utilized.

## **PROSPECTS**

The Group has successfully emerged as one of the leading music entertainment and artiste management entities with an enviable artiste roster, impressive repertoire, extensive industry network and a strong brand equity.

During the period under review, the Group achieved remarkable growth by folds in its different business sectors. As many of the Group's contract artistes have long term management and recording agreements with the Group and with the career paths of many of the artistes being on the upward trend, the management is optimistic of the future growth of the Group.

In the meantime, the Group will continue with its existing strategy to enhance its artiste base through recruiting and training new artistes and contracting additional established artistes in the industry, expand into the Taiwan and PRC markets, license with additional international record companies and further strengthen its repertoire of songs and lyrics. The management will also focus on and strengthen its strategic marketing and multi-media sections to sustain and improve the competitive advantages of the Group.

As the Group's previous investment in its artistes, repertoire collection and industry network bears fruit, the management expects to harvest better results for the years to come.

## RESULTS

The Board of Directors (the “Board” or the “Directors”) of the Company is pleased to announce the unaudited consolidated results of the Group for the three months (the “Quarterly Period”) and the nine months (the “Nine-Month Period”) ended 31st December, 2000 together with the comparative unaudited figures for the corresponding periods in 1999 as follows:

	<i>Notes</i>	<b>Three months ended 31st December,</b>		<b>Nine months ended 31st December,</b>	
		<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	32,304	16,207	83,087	27,996
Other revenue		547	808	2,214	1,605
Cost of music production and distribution		(16,020)	(10,679)	(49,057)	(32,601)
Cost of self-organised events		(2,378)	—	(5,604)	—
Distribution costs		(2,211)	(1,250)	(5,563)	(4,752)
Administrative expenses		(10,647)	(6,677)	(26,251)	(14,058)
		<hr/>	<hr/>	<hr/>	<hr/>
Profit/(Loss) from operations		1,595	(1,591)	(1,174)	(21,810)
Finance costs		(6)	(10)	(23)	(30)
Share of results of associates		(41)	—	(337)	—
		<hr/>	<hr/>	<hr/>	<hr/>
Profit/(Loss) before taxation		1,548	(1,601)	(1,534)	(21,840)
Taxation	3	—	—	—	—
		<hr/>	<hr/>	<hr/>	<hr/>
Profit/(Loss) attributable to shareholders		<u>1,548</u>	<u>(1,601)</u>	<u>(1,534)</u>	<u>(21,840)</u>
		<hr/>	<hr/>	<hr/>	<hr/>
Earnings/(Loss) per share – basic	4	<u>0.98 cent</u>	<u>(1.15) cents</u>	<u>(1.05) cents</u>	<u>(15.67) cents</u>

Notes:

## 1. Basis of preparation

The Company was incorporated in Bermuda on 17th October, 2000 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. The Company's shares have been listed on the GEM operated by the Stock Exchange since 19th December, 2000.

Pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of the Company's shares on the GEM, the Company became the ultimate holding company of the Group on 30th November, 2000. Details of the Reorganisation are set out in the Prospectus of the Company dated 8th December, 2000. The results of the Group comprise the results of all companies now comprising the Group using the merger basis of accounting as if the current group structure had been in existence since 1st April, 1999, and where applicable, from their respective dates of incorporation or acquisition by the Group, whichever is later.

The principal accounting policies adopted in preparing the unaudited consolidated results conform with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants.

## 2. Turnover

	Three months ended 31st December,		Nine months ended 31st December,	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000

An analysis of turnover is as follows:

Music production and distribution				
– sale of albums	22,810	14,054	54,198	21,892
– licence income	2,440	1,906	8,763	4,027
	<u>25,250</u>	<u>15,960</u>	<u>62,961</u>	<u>25,919</u>
Artiste management fee income	<u>4,140</u>	<u>847</u>	<u>13,108</u>	<u>2,677</u>
Event production				
– gross revenue from self-organised events	2,578	—	6,682	—
– share of net income from jointly organised events	336	(600)	336	(600)
	<u>2,914</u>	<u>(600)</u>	<u>7,018</u>	<u>(600)</u>
	<u>32,304</u>	<u>16,207</u>	<u>83,087</u>	<u>27,996</u>

### 3. Taxation

No provision for Hong Kong Profits Tax was made as the Group had no assessable profits during the Nine-Month Period and the corresponding period in 1999.

The Group is not subject to taxation in any other jurisdictions in which it operates.

The Group had no share of taxation in the associates during the Nine-Month Period and the corresponding period in 1999.

The Group did not have any significant deferred taxation in respect of each of the Quarterly Period and the Nine-Month Period and their corresponding periods in 1999.

### 4. Earnings/(loss) per share

The calculation of basic earnings/(loss) per share for the Quarterly Period and the Nine-Month Period is based on the unaudited consolidated profit/(loss) attributable to shareholders of approximately HK\$1,548,000 and HK\$(1,534,000) respectively (*the corresponding periods in 1999: loss of approximately HK\$1,601,000 and HK\$21,840,000 respectively*) and weighted average number of 157,964,976 and 145,591,111 ordinary shares (*1999: 139,370,371 and 139,370,371 ordinary shares*) outstanding.

No amount for diluted earnings/(loss) per share is disclosed for the Quarterly Period and the Nine-Month Period as the exercise of the share options outstanding would have no dilutive effect.

No amount for diluted loss per share was disclosed for the corresponding periods in 1999 as the Company had no dilutive potential ordinary shares for the periods.

### 5. Movement of reserves

Analyses of the movement of reserves are shown as follow:

#### (a) Accumulated deficit

	Three months ended		Nine months ended	
	31st December,		31st December,	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at the beginning of the period	(152,136)	(141,660)	(149,054)	(121,421)
Profit/(Loss) for the period	<u>1,548</u>	<u>(1,601)</u>	<u>(1,534)</u>	<u>(21,840)</u>
Balance at the end of the period	<u><u>(150,588)</u></u>	<u><u>(143,261)</u></u>	<u><u>(150,588)</u></u>	<u><u>(143,261)</u></u>



(b) **Other reserves**

	<b>Share premium</b> <i>HK\$'000</i>	<b>Contributed surplus</b> <i>HK\$'000</i>	<b>Special reserve</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
Balance at 1st April, 2000	—	—	—	—
Waive of advances from a substantial shareholders as a result of the Reorganisation	—	—	75,000	75,000
Balance at 30th September, 2000	—	—	75,000	75,000
Premium arising from the issue of new shares	102,720	—	—	102,720
Expenses in connection with the issue of new shares	(14,380)	—	—	(14,380)
Surplus arising from the Reorganisation	—	91,163	—	91,163
Capitalization of premium on the issue of new shares	(1,293)	—	—	(1,293)
Capitalization of reserve on paying up nil-paid shares	—	(100)	—	(100)
Balance at 31st December, 2000	<u>87,047</u>	<u>91,063</u>	<u>75,000</u>	<u>253,110</u>

**INTERIM DIVIDEND**

The Board does not recommend the payment of an interim dividend for the nine months ended 31st December, 2000 (1999: Nil).

## DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN SECURITIES

As at 31st December, 2000, the interests of the Directors and chief executives of the Company and their respective associates in the shares of the Company and its associated corporations as recorded in the register required to be maintained under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

### The Company

Name of Director	Personal Interest	Family Interest	Corporate Interest	Other Interest	Total
Luk Siu Man, Semon ("Ms. Semon Luk")	Nil	139,370,371 ( <i>Note</i> )	Nil	Nil	139,370,371
Lee Tsun, Frankie ("Mr. Frankie Lee")	4,629,629	Nil	Nil	Nil	4,629,629
Cheng Yiu Keung	500,000	Nil	Nil	Nil	500,000

*Note: Questrel Holdings Limited ("Questrel") is the owner of the 139,370,371 shares and is a company controlled by Mr. Yeung Sau Shing, Albert ("Mr. Albert Yeung"), spouse of Ms. Semon Luk. Accordingly, Ms. Semon Luk was deemed to be interested in the 139,370,371 shares held by Questrel.*

### Associated Corporation

Name of Associated Corporation	Nature of Interest	Type and number of securities
Emperor International Holdings Limited <sup>(1)</sup>	Family	431,779,770 ordinary shares of HK\$1.00 each
Global Food Culture Group Limited <sup>(2)</sup>	Family	675,842,500 ordinary shares of HK\$1.00 each

*Notes:*

- (1) These shares are registered in the name of and beneficially owned by, Charron Holdings Limited, a wholly owned subsidiary of Questrel. Accordingly, Ms. Semon Luk was deemed to be interested in the 431,779,770 shares in Emperor International Holdings Limited.
- (2) These shares are registered in the name of and beneficially owned by, Forever Rich Profits Limited, an indirect wholly owned subsidiary of Questrel. Accordingly, Ms. Semon Luk was deemed to be interested in the 675,842,500 shares in Global Food Culture Group Limited.

Save as disclosed above, as at 31st December, 2000, none of the Directors or chief executives or their respective associates of the Company has any interest in the equity or debt securities of the Company or its associated corporations (as defined in the SDI Ordinance) as recorded in the register required to be maintained under Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors as referred to in Rule 5.40 of the GEM Listing Rules.

## DIRECTORS' RIGHT TO ACQUIRE SHARES

Pursuant to the Pre-IPO Share Option Scheme adopted by the Company on 30th November, 2000, Mr. Frankie Lee was granted option to subscribe for 9,259,259 shares of the Company at a subscription price of HK\$1.08 per share (subject to adjustment). The option is exercisable within 12 months from the expiry of 12 months from 19th December, 2000, the listing date of the Company, but shall lapse where Mr. Frankie Lee ceases to be employed by the Group.

The Company adopted a Share Option Scheme (the "Scheme") on 30th November, 2000 under which the Company may grant options to full-time employees, including Directors of the Company or its subsidiaries, to subscribe for shares in the Company. The subscription price for shares will be a price determined by the Directors, but may not be less than the higher of the closing price of shares on the Stock Exchange on the date of grant of the option, the average of the closing price of shares on the Stock Exchange for the five trading days immediately preceding the date of grant of the option or the nominal value of the shares.

The maximum number of shares in respect of which options may be granted under the Scheme may not (when aggregated with shares subject to any other share option schemes, including the Pre-IPO Share Option Scheme) exceed in nominal amount 30% of the issued share capital of the Company from time to time. An option may be exercised at any time during a period to be determined and notified by the Directors to each grantee, which period may not expire earlier than 3 years and later than 10 years from the date of grant of the option subject to the provisions for early termination.

The Company had not granted any option under the Scheme since the adoption of the Scheme.

Save as disclosed above, as at 31st December, 2000, the Company had not granted any right to subscribe for equity or debt securities of the Company to any director or chief executive director of the Company or to their spouse or children under 18 years of age.

## SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2000, according to the register of substantial shareholders required to be maintained under S16(1) of the SDI Ordinance, the Company had been notified of the following interests, being 10% or more in the issued share capital of the Company:

Name	Number of Shares	Percentage Holding
Questrel	139,370,371	58.07%
Mr. Albert Yeung	139,370,371 (Note)	58.07%
Ms. Semon Luk	139,370,371 (Note)	58.07%

*Note: Questrel is the owner of the 139,370,371 shares and is a company controlled by Mr. Albert Yeung. Accordingly, Mr. Albert Yeung, spouse of Ms. Semon Luk was deemed to be interested in the 139,370,371 shares held by Questrel. By virtue of the above interests of Mr. Albert Yeung, Ms. Semon Luk is also deemed to be interested in the above 139,370,371 shares held by Questrel.*

## MANAGEMENT SHAREHOLDERS

So far as the Directors are aware, as at 31st December, 2000, the following persons were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings the Company and who are able, as a practical matter, to direct or influence the management of the Company:

Name	Number of Shares Held	Approximate Percentage of Shareholding
Questrel	139,370,371	58.07%
Mr. Albert Yeung	139,370,371 ( <i>Note</i> )	58.07%
Ms. Semon Luk	139,370,371 ( <i>Note</i> )	58.07%
Mr. Frankie Lee	4,629,629	1.93%

*Note: Questrel is the owner of the 139,370,371 shares and is a company controlled by Mr. Albert Yeung. Accordingly, Mr. Albert Yeung, spouse of Ms. Semon Luk was deemed to be interested in the 139,370,371 shares held by Questrel. By virtue of the above interests of Mr. Albert Yeung, Ms. Semon Luk is also deemed to be interested in the above 139,370,371 shares held by Questrel.*

## SPONSORS' INTERESTS

As updated and notified by the Company's sponsors. BNP Paribas Peregrine Capital Limited (the "Sponsor"), as at 31st December, 2000 neither of the Sponsor nor any of their respective directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the Company's share capital.

Pursuant to the agreement dated 7th December, 2000 entered into between the Company and the Sponsor, the Sponsor will receive a fee for acting as the Company's retained sponsor for the period from 7th December, 2000 to 31st March, 2003.

## COMPETING INTERESTS

Mr. Frankie Lee is the major shareholder of People Music Limited ("People Music"). Pursuant to a sub-publishing and administrative agreement dated 1st July, 1998 entered into between People Music and Warner/Chappell Music, HK., Ltd. ("Warner"), People Music granted and licensed to Warner certain exclusive rights in 61 compositions in return for royalties. The term of such sub-publishing and administrative agreement is from 1st July, 1998 to 30th June, 2001, such term to be extended to 20th June, 2003 should the net receipts received by Warner up to 30th June, 2001 be less than the amount of the payment in advance made to People Music. Accordingly, the business of People Music may constitute competition with the business of the Group. The songs under the library of People Music were released before 1996 and those songs are no longer popular hits. The Directors accordingly do not consider that the business of People Music will materially affect the Group's business.

Dr. Jackie Chan, a non-executive Director, is also a non-executive director of STAREASTnet.com Corporation which is an internet media company engaged in the provision of multimedia entertainment and life style information. It produces and distributes original interactive programme through its network of vertically integrated entertainment portals. So far as the Directors are aware, STAREASTnet.com Corporation does not engage in artiste management and event production activities. The Directors do not consider STAREASTnet.com Corporation as a competitor.

Save as disclosed above, the Directors believe that none of the directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business which cause or may cause significant competition with the business of the Group.

## **YEAR 2000 COMPLIANCE**

The Group reviewed all its computer hardware and application software to ensure that they were Year 2000 compliant. The Directors believe that they have taken all necessary steps to ensure the computer systems of the Group are Year 2000 compliant. The Group has not experienced any problems with computer hardware and application software that relate to Year 2000 compliance issue so far.

## **AUDIT COMMITTEE**

The Company established an audit committee on 30th November, 2000 with written terms of reference in compliance with Rules 5.23 and 5.24 of the GEM Listing Rules. The audit committee has two members comprising the two independent non-executive Directors, namely, Mr. Wong Ching Yue and Mr. Tso Hon Sai, Bosco.

## **PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

The shares of the Company only commenced trading on GEM on 19th December, 2000. Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period ended 31st December, 2000.

By Order of the Board  
**Luk Siu Man, Semon**  
*Chairperson*

Hong Kong, 12th February, 2001