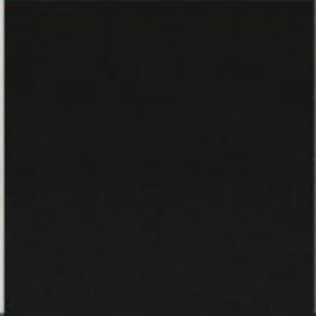
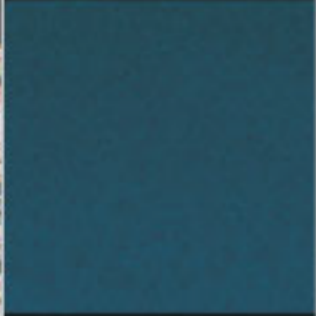
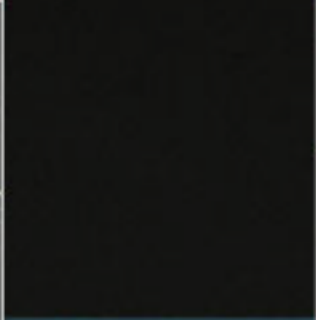
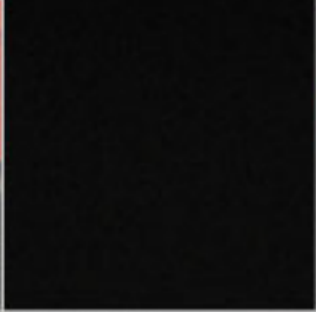
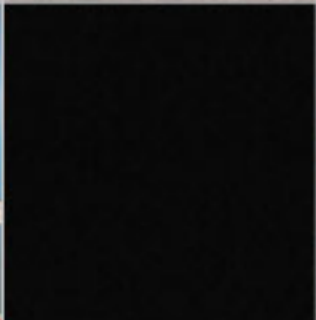


# EEG

EMPEROR ENTERTAINMENT GROUP LIMITED  
英皇娛樂集團有限公司



## 年報 Annual Report 2001

## 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.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the internet website operated by the 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 in order to obtain up-to-date information on GEM-listed issuers.**

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# CORPORATE INFORMATION

## DIRECTORS

Luk Siu Man, Semon (*Chairperson*)\*  
Lee Tsun, Frankie  
(*Chief Executive Officer*)  
Wong Chi Fai  
Fan Man Seung, Vanessa  
Cheng Yiu Keung  
Chan Kong Sang, Jackie\*  
Wong Ching Yue\*\*  
Tso Hon Sai, Bosco\*\*

\* *Non-executive Directors*

\*\* *Independent Non-executive Directors*

## COMPANY SECRETARY

Mok Fung Lin, Ivy

## COMPLIANCE OFFICER

Wong Chi Fai, *FCCA, AHKSA*

## QUALIFIED ACCOUNTANT

Lau Wei Fan, *CPA (Aust), AHKSA*

## AUTHORISED REPRESENTATIVES

Fan Man Seung, Vanessa  
Mok Fung Lin, Ivy

## AUDIT COMMITTEE

Wong Ching Yue  
Tso Hon Sai, Bosco

## SPONSOR

BNP Paribas Peregrine Capital Limited

## LEGAL ADVISERS

*As to Hong Kong Law:*  
Fairbairn Cately Low & Kong

*As to Bermuda Law:*  
Conyers Dill & Pearman

## BANKERS

The Hongkong and Shanghai Banking  
Corporation Limited  
International Bank of Asia

## AUDITORS

Deloitte Touche Tohmatsu

## REGISTERED OFFICE

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

## PRINCIPAL OFFICE

28th Floor  
Emperor Group Centre  
288 Hennessy Road  
Wanchai  
Hong Kong

## REGISTRARS (*in Bermuda*)

Butterfield Corporate Services Limited  
Rosebank Centre  
11 Bermudiana Road  
Pembroke  
Bermuda

## REGISTRARS (*in Hong Kong*)

Secretaries Limited  
5th Floor  
Wing On Centre  
111 Connaught Road Central  
Hong Kong

## WEBSITE

[http:// www.eegmusic.com](http://www.eegmusic.com)

# NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting of Emperor Entertainment Group Limited (the “Company”) will be held at 28th Floor, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong on 8th August, 2001 at 11:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and auditors for the year ended 31st March, 2001.
2. To re-elect retiring directors and to fix directors’ remuneration.
3. To re-appoint auditors and to authorise the board of directors to fix their remuneration.
4. As special business, to consider and, if thought fit, pass the following resolutions as ordinary resolutions:

(A) “THAT

- (i) subject to sub-paragraph (ii) of this resolution, the exercise by the directors of the Company during the Relevant Period of all the powers of the Company to allot and issue additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers either during or after the Relevant Period, be and is hereby generally and unconditionally approved;
- (ii) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in sub-paragraph (i) of this resolution, otherwise than pursuant to a Rights Issue or the exercise of subscription or conversion rights under any warrants of the Company or any securities which are convertible into shares of the Company or any share option scheme, shall not exceed twenty per cent. of the nominal amount of the issued share capital of the Company on the date of this resolution and this approval shall be limited accordingly; and

# NOTICE OF ANNUAL GENERAL MEETING

(iii) for the purposes of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:

- (a) the conclusion of the next annual general meeting of the Company;
- (b) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable laws to be held; and
- (c) the date on which the authority sets out in this resolution is revoked or varied by an ordinary resolution in general meeting.

“Rights Issue” means an offer of shares open for a period fixed by the directors to holders of shares on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory outside Hong Kong),”

(B) “THAT

- (i) subject to sub-paragraph (ii) of this resolution, the exercise by the directors during the Relevant Period of all the powers of the Company to repurchase issued shares in the capital of the Company, subject to and in accordance with all applicable laws and the Bye-laws of the Company, be and is hereby generally and unconditionally approved;
- (ii) the aggregate nominal amount of the share capital which the Company is authorised to repurchase pursuant to the approval in sub-paragraph (i) of this resolution shall not exceed ten per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of this resolution and the said approval shall be limited accordingly; and

# NOTICE OF ANNUAL GENERAL MEETING

(iii) for the purposes of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:

- (a) the conclusion of the next annual general meeting of the Company;
  - (b) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable laws to be held; and
  - (c) the date on which the authority sets out in this resolution is revoked or varied by an ordinary resolution in general meeting.”
- (C) “THAT conditional upon resolution no. 4(B) above being passed, the aggregate nominal amount of the number of shares in the capital of the Company which are repurchased by the Company under the authority granted to the directors as mentioned in resolution no. 4(B) above shall be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to resolution no. 4(A) above.”

By Order of the Board  
**Mok Fung Lin, Ivy**  
*Company Secretary*

Hong Kong, 18th June, 2001

*Registered Office:*  
Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

*Principal Office:*  
28th Floor  
Emperor Group Centre  
288 Hennessy Road  
Wanchai  
Hong Kong

# NOTICE OF ANNUAL GENERAL MEETING

*Notes:*

- (i) A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies (if a member who is the holder of two or more shares) to attend and vote in his stead. A proxy need not be a member of the Company.
- (ii) In order to be valid, the form of proxy must be deposited at the principal office of the Company at 28th Floor, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney, not less than 48 hours before the time for holding the meeting or adjourned meeting.
- (iii) Completion and delivery of the form of proxy will not preclude a member from attending and voting in person at the meeting if the member so desires and in such event, the instrument appointing a proxy shall be deemed to be revoked.



# BIOGRAPHIES OF DIRECTORS AND SENIOR EXECUTIVES

## **LUK SIU MAN, SEMON** *Chairperson*

Aged 45, graduated from the University of Toronto with a bachelor degree in Commerce. Ms. Luk worked in the banking industry for almost 10 years. She is also the Chairperson of Emperor International Holdings Limited and Emperor (China Concept) Investments Limited, the securities of both of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited. She joined the Group in November 2000.

## **LEE TSUN, FRANKIE** *Executive Director and Chief Executive Officer*

Aged 41, is responsible for the corporate and business strategies, and operations of the Group. Prior to joining the Group in January 1999, Mr. Lee was the managing director of Warner Music HK Ltd. Mr. Lee has over 20 years of experience in music production, concert organisation, promotion and management of renowned artistes. Mr. Lee worked for Capital Artists Ltd. for seven years. During this period, he was involved in the artiste management, event production and concert tours. He worked as a disc jockey and programme producer for CRHK during the early 1980s.

## **WONG CHI FAI** *Executive Director and Compliance Officer*

Aged 45, is responsible for the overall corporate and business planning of the Group. He has over 20 years' experience in finance and management spanning a diverse range of businesses from manufacturing to property investment and development. He is an associate of the Hong Kong Society of Accountants and a fellow of the Association of Certified Accountants. He is also the joint managing director of Emperor International Holdings Limited and a director of Emperor (China Concept) Investments Limited, Emperor Technology Venture Limited and Global Food Culture Group Limited, the securities of all of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited. He first joined the Group in January 1994.

## **FAN MAN SEUNG, VANESSA** *Executive Director*

Aged 38, is a solicitor qualified in Hong Kong and holds a master degree in Business Administration. Ms. Fan is responsible for the overall corporate and business planning of the Group. She is also the joint managing director of Emperor International Holdings Limited and a director of Emperor (China Concept) Investments Limited, Emperor Technology Venture Limited and Global Food Culture Group Limited, the securities of all of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited. She first joined the Group in January 1994.

# BIOGRAPHIES OF DIRECTORS AND SENIOR EXECUTIVES

## **CHENG YIU KEUNG** *Executive Director*

Aged 47, is the managing director of the record division under the music production and distribution business of the Group. Mr. Cheng is responsible for overseeing the operation of the record division which includes formulating strategic plan for record releases and participating in the production of the records. Prior to joining the Group in May 2000, Mr. Cheng worked as the marketing director of Warner Music HK Ltd. from 1980 to 1995 and as deputy managing director of Go East Entertainment Co. Ltd. from 1995 to early 2000.

## **CHAN KONG SANG, JACKIE, MBE, SBS** *Non-executive Director*

Aged 47, is an international renowned actor and entertainer. He has been awarded fellowship by the Hong Kong Academy for Performing Arts. He was chosen as one of the Ten Outstanding Young Persons of Hong Kong in 1986 and The Outstanding Young Persons of the World by Jaycees International in 1988. In 1992, the Taiwan Government honoured him as one of the Five Most Outstanding Young Chinese in the World. He was made a Member of the Most Excellent Order of the British Empire (MBE) in 1989 and was conferred the Honorary Doctorate of Social Science by the Hong Kong Baptist University in 1996. He was awarded the Silver Bauhinia Star by the Government of Hong Kong Special Administrative Region in 1999. He is the Chairman of Global Food Culture Group Limited and also an executive director of Star East Holdings Limited, the securities of both of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited and a non-executive director of STAREASTnet.com Corporation, the shares of which are listed on the GEM. He joined the Group in November 2000.

## **WONG CHING YUE** *Independent Non-executive Director*

Aged 52, is a senior counsel, barrister-at-law, practising in Hong Kong since 1975. He joined the Group in November 2000.

## **TSO HON SAI, BOSCO** *Independent Non-executive Director*

Aged 37, is a solicitor practising in Hong Kong since 1990. He is a partner of Bosco Tso & Partners. He graduated from King's College London in the United Kingdom in 1987. He joined the Group in November 2000.

# BIOGRAPHIES OF DIRECTORS AND SENIOR EXECUTIVES

## **MOK FUNG LIN, IVY** *Company Secretary*

Aged 36, is a solicitor qualified in Hong Kong and the United Kingdom, and holds a master degree in Business Administration. She is also an executive director of Emperor International Holdings Limited and Emperor (China Concept) Investments Limited, the securities of both of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

## **LAU WEI FAN** *Qualified Accountant*

Aged 30, holds a bachelor degree in Accountancy and is a certified practising accountant in Australia and an associate member of the Hong Kong Society of Accountants. She has considerable experience in financial management. She has about five years' audit experience with an international accounting firm. She is responsible for overseeing the financial reporting process and internal control procedures of the Group.

## **KIANG KONG SANG, TONY**

Aged 46, is the artiste and repertoire director under the music production and distribution business of the Group and is responsible for overseeing the music production work of the Group. Prior to joining the Group in January 2000, Mr. Kiang was the production manager of Capital Artists Ltd. and artiste and repertoire manager of Music Impact Ltd. Mr. Kiang has over 12 years of experience in the area of music production.

## **KAN CHIN CHIN, LISA**

Aged 32, is the marketing director of the record division under the MUSICPLUS label and is responsible for overseeing the marketing operation of the MUSICPLUS label of the Group. Prior to joining the Group in August 2000, Ms. Kan was the label chief of Warner Music HK Ltd. and deputy general manager of Universal Music Ltd. Ms. Kan has over eight years of experience in the area of sales, marketing and promotion of records and singing artistes.

# BIOGRAPHIES OF DIRECTORS AND SENIOR EXECUTIVES

## **FOK MAN HEI, MANI**

Aged 28, is the director of the artiste management division of the Group and is responsible for overseeing the operations of the artiste management division of the Group and all aspects of the engagement and promotion activities and providing guidance to certain artistes on personal and career developments. She has eight years of experience in the artiste management industry. Prior to joining the Group in 1993, Ms. Fok worked in the modeling and advertising industries. Ms. Fok possesses a detailed knowledge of and has a successful track record in the promotion of new artistes in the industry.

## **PANG SUK HA, POLLY**

Aged 40, is a director of the artiste management division of the Group and is responsible for overseeing the operations of the artiste management division of the Group and all aspects of the engagement and promotion activities and providing guidance to certain artistes on personal and career developments. She has over 15 years of experience in the artiste management industry. Prior to joining the Group in November 2000, Ms. Pang worked for Warner Music HK Ltd. as controller of the artiste development and public affairs division.

## **LAM WAI HON**

Aged 33, is the general manager of the records division under the EEG label and is responsible for overseeing the domestic repertoire of the EEG label of the Group. Prior to joining the Group in September 1999, Mr. Lam worked for Warner Music HK Ltd. and EMI Music. He has 13 years of experience in promotion and marketing in the records industry.

# CHAIRPERSON'S STATEMENT

For the financial year ended 31st March, 2001, the Company and its subsidiaries (collectively referred to as the "Group") managed to turn from the red to making a profit. The Group recorded a profit of approximately HK\$8.7 million as compared with a loss of approximately HK\$27.6 million for the previous year. Turnover of the Group soared by 135% to approximately HK\$122.4 million as compared with approximately HK\$52.1 million for the previous year.

## **DIVIDEND**

The Board of Directors of the Company (the "Board") did not recommend the payment of a dividend for the year ended 31st March, 2001.

## **OPERATION REVIEW**

The Group is engaged in the businesses of music production and distribution, artiste management and event production, all these businesses achieved encouraging results during the year under review. The management attributed such remarkable improvement to its progressive expansion and development strategies.

### **Music Production and Distribution**

Turnover of the sales of albums and the licensing of music videos, songs and catalogues for the financial year ended 31st March, 2001 amounted to approximately HK\$98.8 million which more than doubled that of the previous year. The number of releases during the year amounted to 76 releases which marked an increase of 85% as compared with the previous year. The releases covered both albums of the Group's contract artistes as well as some 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 year under review, the Group and its artistes won 42 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 year.

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 been exploring opportunity to further penetrate the market of the People's Republic of China. 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.

# CHAIRPERSON'S STATEMENT

As part of the cost rationalisation of the Group, the Taiwan branch office was closed after the financial year under review. As most of the Group's artistes had already signed contracts with Taiwan's prestigious record companies for the distribution and promotion of their records in Taiwan, the management believed that the closure of the Taiwan office would not have an adverse impact on the Group's development in the Taiwan market. The principal office of the Group in Hong Kong will continue to work closely with the Taiwan local record companies to formulate and implement the Group's business plan in Taiwan.

## **Artiste Management**

For the financial year ended 31st March, 2001, the artiste management fee income of the Group of approximately HK\$16.5 million is more than three-folds of that of the previous year. 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 year. Such engagements represented the key drivers of the revenue growth in this business sector.

During the year 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. The management might consider to continue with the STQ to help sustain a healthy growth in its artiste roster.

There were 21 artistes under the Group as at the financial year end as compared to 11 artistes for the previous year. The newly recruited artistes included well established artistes as well as green but promising artistes. The Group would continue to recruit new promising artistes.

## **Event Production**

The gross profit from this business sector amounted to approximately HK\$1.2 million for the year under review which almost doubled the gross profit of HK\$0.6 million for the previous year. As the Group's experience in this industry grew, the Group started to organize concerts on its own during the year, which greatly improved the profit margin. There were 5 concerts organized by the Group during the year, with 2 being self-organized and 3 being co-organized with other parties.

# CHAIRPERSON'S STATEMENT

## FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group currently funds its operations and capital expenditure through cash from operation, net proceeds from the initial public offering, finance leases and unsecured loan from Questrel Holdings Limited ("Questrel"), the substantial shareholder of the Company.

Save as disclosed above and the intra-group liabilities and normal trade payables and accruals, the Group had no other borrowings as at 31st March, 2001. The Board expect that, on a long-term basis, the Group's liquidity will be funded from its operations and, if necessary, additional equity financing or bank borrowing.

As at 31st March, 2001, the Group had net current assets of approximately HK\$97.6 million. The current assets comprised bank balances and cash of approximately HK\$99.61 million (which is mainly in Hong Kong dollars), trade receivables of approximately HK\$26.2 million, prepayments and other receivables of approximately HK\$37.3 million, inventories and record masters of approximately HK\$2.5 million and taxation recoverables of approximately HK\$0.01 million. The current liabilities comprised trade payables of approximately HK\$7.55 million, other payables and accrued charges of approximately HK\$29.02 million, obligations under finance leases of approximately HK\$0.05 million and the amount due to Questrel of approximately HK\$31.4 million. On 4th December, 2000, Questrel had undertaken to the Company that it would not request the Group to repay the outstanding amount due from the Group to Questrel in the amount of HK\$26,500,000 for a period of 12 months from 19th December, 2000, the date on which the shares of the Company was listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and Questrel further agreed to waive any interest on such amount during the same period.

As at the same date, the Group had non-current assets of approximately HK\$17.3 million, consisting of property, plant and equipment of approximately HK\$2.7 million and prepayments and other receivables of approximately HK\$14.6 million.

As at 31st March, 2001, the Group had the commitment to pay artiste fees of approximately HK\$18.3 million and operating lease commitments in the following year of approximately HK\$2.1 million. Save as disclosed above, the Group had no other material commitment, including capital commitment.

# CHAIRPERSON'S STATEMENT

The over-allotment option granted to the placing underwriters had not been exercised by BNP Paribas Peregrine Securities Limited. Most of the net proceeds of the initial public offering had not been utilized as at 31st March, 2001 and was placed on short-term deposit with banks or financial institutions in Hong Kong. Proceeds to the extent of approximately HK\$6 million had been spent in development of music production and distribution business and event production business and this was in line with the Board's intention as stated in the prospectus of the Company dated 8th December, 2000 (the "Prospectus"). However, only minimal amount was spent to further invest in eFoodland Limited ("eFoodland") and eStardream Limited ("eStardream") as compared with the expected further investment of HK\$1 million at the time of initial listing. It is expected that the investment in eFoodland and eStardream in the near future will remain minimal due to the slowdown of the projects in view of the market conditions relating to internet business.

## PROSPECTS

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

During the financial year 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.

Mr. Lee Tsun, Frankie ("Mr. Frankie Lee") tendered resignation as an executive director and chief executive officer of the Company with effect from 30th June, 2001. The Board considered that his resignation would not have material adverse impact on the operations of the Group as the artiste rosters and operation of the Group have been well established.

The Group would continue with its existing strategy to enhance its artiste base through recruiting and training new artistes and signing up established artistes in the industry, to expand into overseas markets, to enter into license arrangement with international record companies and to further strengthen its repertoire of songs and lyrics. The Group would also look for good opportunities to diversify into other promising entertainment sectors to broaden its income stream.

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.



# CHAIRPERSON'S STATEMENT

## NUMBER AND REMUNERATION OF EMPLOYEES

As at 31st March, 2001, the Group had 76 employees and total staff costs for the year ended 31st March, 2001 was approximately HK\$25.7 million. All employees are under the remuneration policy of fixed monthly salary with discretionary bonus. Details of share option scheme for employees are set out in note 18(a) to the financial statements.

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

<b>Business objective up to 31st March, 2001 as stated in the Prospectus</b>	<b>Actual business progress up to 31st March, 2001</b>
--	--

### 1. Strategic development/overseas expansion

Recruit not less than two additional staff for the music production and distribution function and the artiste management function

In view of the current market condition, the Group tightened cost control over local operation and slowed down overseas expansion and therefore only one additional staff was recruited for the artiste management function up to 31st March, 2001

### 2. Music production and distribution

(i) Release not less than eight albums for the Group's own artistes in Hong Kong

Released eighteen albums for the Group's own artistes in Hong Kong

(ii) Enter into licence agreement with not less than one international record company

The Group adopted a prudent approach towards selecting business partner and expects to finalise and execute a licence agreement with a record company in Taiwan in the third quarter of 2001

# CHAIRPERSON'S STATEMENT

## 3. Artiste management

- |   |   |
|---|---|
| (i) Recruit not less than one new artiste in Hong Kong  | The Group has signed up a green but talented artiste since the financial year end                                       |
| (ii) Arrange Nicholas Tse to perform in a concert to be held in April 2001 in Sydney, Australia organised by an independent third party | Nicholas Tse had performed in a concert held in April 2001 in Sydney, Australia organised by an independent third party |

## 4. Event production

- |  |  |
|--|--|
| Commence the preparation work for the Dave Wang in Concert 2001 to be held in April 2001 | Dave Wang in Concert 2001 was held in April 2001 |
|--|--|

## APPRECIATION

On behalf of the Board, I would like to express our heartfelt thanks to Mr. Frankie Lee whose resignation will take effect from 30th June, 2001 for his valuable contribution to the Group's development.

I would thank our staff for their dedication and hard work, and our shareholders and business associates for their continuous support and confidence in the Group.

**Luk Siu Man, Semon**  
*Chairperson*

Hong Kong, 18th June, 2001

# DIRECTORS' REPORT

The directors of the Company present their first report and the audited financial statements of the Company for the period from 17th October, 2000 (date of incorporation) to 31st March, 2001 and of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31st March, 2001.

## **REORGANISATION AND LISTING ON THE GROWTH ENTERPRISE MARKET (THE "GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")**

The Company was incorporated as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda (as amended) on 17th October, 2000. Pursuant to a group reorganisation to rationalise the structure of the Group in preparation for the public listing of the Company's shares on the GEM of the Stock Exchange, the Company became the holding company of the Group on 30th November, 2000. Details of the group reorganisation are set out in note 1 to the financial statements.

The shares of the Company have been listed on the GEM of the Stock Exchange since 19th December, 2000.

## **PRINCIPAL ACTIVITIES**

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 28 to the financial statements.

## **RESULTS**

The results of the Group for the year ended 31st March, 2001 are set out in the consolidated income statement on page 31.

The directors of the Company do not recommend the payment of a dividend.

## **FINANCIAL SUMMARY**

A summary of the results of the Group for each of the three years ended 31st March, 2001 is set out on page 70.

# DIRECTORS' REPORT

## SHARE CAPITAL AND SHARE OPTIONS

Details of changes in the authorised and issued share capital of the Company since its incorporation are set out in note 17 to the financial statements.

Details of the share option schemes of the Company are set out in note 18 to the financial statements.

## RESERVES

Movements in the reserves of the Group during the year and of the Company since its incorporation are set out in note 19 to the financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group during the year are set out in note 10 to the financial statements.

## DIRECTORS

The directors of the Company since incorporation and up to the date of this report were:

### Executive directors:

Mr. Wong Chi Fai	(appointed on 15th November, 2000)
Ms. Fan Man Seung, Vanessa	(appointed on 15th November, 2000)
Mr. Lee Tsun, Frankie	(appointed on 30th November, 2000)
Mr. Cheng Yiu Keung	(appointed on 30th November, 2000)

### Non-executive directors:

Ms. Luk Siu Man, Semon ( <i>Chairperson</i> )	(appointed on 15th November, 2000)
Dr. Chan Kong Sang, Jackie	(appointed on 30th November, 2000)

### Independent non-executive directors:

Mr. Wong Ching Yue	(appointed on 30th November, 2000)
Mr. Tso Hon Sai, Bosco	(appointed on 30th November, 2000)

# DIRECTORS' REPORT

## **DIRECTORS** *(Continued)*

The term of office of each director, including the independent non-executive directors, is the period up to his/her retirement by rotation in accordance with the Bye-laws of the Company.

In accordance with Bye-law 87(1) of the Company's Bye-laws, Mr. Wong Chi Fai retires at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

In accordance with Bye-law 86(2) of the Company's Bye-laws, Mr. Cheng Yiu Keung ("Mr. Gordon Cheng"), Dr. Chan Kong Sang, Jackie ("Dr. Jackie Chan"), Mr. Wong Ching Yue and Mr. Tso Hon Sai, Bosco, retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Subsequent to 31st March, 2001, Mr. Lee Tsun, Frankie ("Mr. Frankie Lee") proposed to resign and the Company has accepted his resignation as an executive director and chief executive officer of the Company with effect from 30th June, 2001.

Each of the executive directors has entered into a service agreement with the Company for an initial term of two years commencing from 30th November, 2000, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

Apart from the above service agreements, on 23rd November, 2000, Mr. Frankie Lee entered into another service agreement with Emperor Entertainment Limited ("EEL"), a wholly-owned subsidiary of the Company, in relation to his service as a director and the chief executive officer of the Company and its subsidiaries in connection with their business, for a term commencing from 1st November, 2000 to 31st October, 2003, such term may be terminated by not less than six months' notice in writing served by either party on the other. Both Mr. Frankie Lee and the Company have, as at the date of this report, agreed to waive all their respective rights in respect of the early termination of the service agreements (as referred to above) entered into between the two parties.

Apart from the above service agreements, on 5th May, 2000, Mr. Gordon Cheng entered into an employment contract with EEG Limited, a wholly-owned subsidiary of the Company, in relation to his service as the managing director of record division responsible for overseeing the record sales business of the Group. This agreement may be terminated by not less than one month's notice in writing served by either party on the other. On 31st December, 2000, the agreement was terminated and replaced by another employment contract entered into with EEL under the same terms of employment.

# DIRECTORS' REPORT

## DIRECTORS (Continued)

Each of the non-executive directors has been appointed for a term of two years commencing from 30th November, 2000 and expiring on 29th November, 2002.

Save as disclosed above, none of the directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## DIRECTORS' INTEREST IN CONTRACTS AND CONNECTED TRANSACTIONS

During the year ended 31st March, 2001, the Group had the following transactions with connected parties pursuant to the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules"):

Name of company	Interested party	Nature of transaction	Terms	Amount for the year ended 31st March, 2001 HK\$'000
Strong Time Investment Limited	Mr. Yeung Hoi Sing, Sonny and Mr. Yeung Lik Shing, Michael (Note 1)	Operating lease rentals paid	20th January, 2000 to 19th January, 2003 at a monthly rental of HK\$89,588 (exclusive of rates, outgoing charges and management fees)	1,075
		Management fees and air-conditioning charges paid	20th January, 2000 to 19th January, 2003 at a monthly fee of approximately HK\$27,119	325
		Operating lease rentals paid	8th May, 2000 to 19th January, 2003 at a monthly rental of HK\$15,121 (exclusive of rates and management fees)	136
		Management fees and air-conditioning charges paid	8th May, 2000 to 19th January, 2003 at a monthly fee of approximately HK\$4,578	41
Linkpac Development Limited	Emperor International Holdings Limited ("Emperor International") (Note 2)	Operating lease rentals paid	12th September, 2000 to 11th September, 2002 at a monthly rental of HK\$32,500 (exclusive of rates, management fees, and all other outgoing charges)	183
		Management fees paid	12th September, 2000 to 11th September, 2002 at a monthly fee of HK\$10,062.40 (subject to increase)	67
Very Sound Investments Limited	Emperor International (Note 2)	Car park rentals paid	28th January, 1999 onwards at a monthly fee of HK\$3,600 (may be terminated by either party giving to the other party a one-month prior written notice)	43

# DIRECTORS' REPORT

## DIRECTORS' INTEREST IN CONTRACTS AND CONNECTED TRANSACTIONS

(Continued)

Name of company	Interested party	Nature of transaction	Terms	Amount for the year ended 31st March, 2001 HK\$'000
Active Pace Investment Limited	Emperor International (Note 2)	Car park rentals paid	1st September, 2000 onwards at a monthly fee of HK\$4,800 (may be terminated by either party giving to the other party a one-month prior written notice)	58
Emperor Advertising Limited	Emperor International (Note 2)	Advertising agency commission and other fees paid	1st August, 2000 to 31st July, 2002 at an agency commission rate of 7.5% for media advertising service and based on the actual hours spent at an hourly rate of HK\$750.00 per manpower for promotion and creative services (renewable for further 12 months at the option of either party)	432
Emperor (Investment) Management Limited	Emperor International (Note 2)	Fee paid for back office support services (including internal auditing, accounting, human resources and administrative services)	1st October, 2000 to 30th September, 2002 based on the actual hours spent at the maximum rate of approximately HK\$400 per hour (renewable for a further 12 months at the option of either party)	855
		Fee paid for professional services (including information technology, legal and secretarial services)	1st October, 2000 to 30th September, 2002 based on the actual hours spent at the rate of approximately HK\$380 per hour for information technology services, and charged on a job-by-job basis for legal and secretarial services (renewable for a further 12 months at the option of either party)	376
eDaily Limited	Emperor International (Note 3)	Fees paid for designing, building and hosting of websites	1st July, 2000 to 30th June, 2002 based on a job-by job basis from HK\$40,000 to HK\$250,000 for developing websites and charged at monthly website hosting fee of HK\$15,000 per website developed (renewable at the option of either party)	1,039
eDaily Group Limited, Emperor Movie Holdings Limited ("Emperor Movie") and Global Food Culture Group Limited ("Global Food")	Emperor International (Note 3) and Questrel Holdings Limited ("Questrel") (Note 4)	Investment in eFoodland Limited ("eFoodland")	The investment in eFoodland will be shared among its shareholders according to their respective shareholdings	607
eDaily Group Limited and Emperor Movie	Emperor International (Note 3) and Questrel (Note 4)	Investment in eStardream Limited ("eStardream")	The investment in eStardream will be shared among its shareholders according to their respective shareholdings	11

# DIRECTORS' REPORT

## DIRECTORS' INTEREST IN CONTRACTS AND CONNECTED TRANSACTIONS

*(Continued)*

*Notes:*

1. Mr. Yeung Hoi Sing, Sonny and Mr. Yeung Lik Shing, Michael are brothers of Mr. Yeung Sau Shing, Albert ("Mr. Albert Yeung"), a deemed substantial shareholder of the Company.
2. The company was an indirect wholly-owned subsidiary of Emperor International. Emperor International was a listed company and was an indirectly 50.02% owned subsidiary of Questrel, a substantial shareholder of the Company. Questrel was a company controlled by Mr. Albert Yeung, spouse of Ms. Luk Siu Man, Semon ("Ms. Semon Luk"), the Chairperson of the Company.
3. eDaily Limited and eDaily Group Limited were 50% owned associated companies of Emperor International and were 28% owned associated companies of Emperor Technology Venture Limited, a 34.94% associated company of Emperor International.
4. Emperor Movie was a wholly-owned subsidiary of Questrel while Global Food was a 56.77% owned subsidiary of Questrel.

In the opinion of the independent non-executive directors, the above transactions were carried out in the ordinary and usual course of business under normal commercial terms and are in accordance with the relevant agreements governing them and on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

In the opinion of the executive directors of the Company, the respective amounts did not exceed the relevant annual caps agreed by the GEM of the Stock Exchange.

Save as disclosed above, no contracts of significance to which the Company, any of its holding companies, fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.



# DIRECTORS' REPORT

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31st March, 2001, 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:

### (a) The Company

Name of director	Personal interest	Family interest	Corporate interest	Other interest	Total
Ms. Semon Luk	—	139,370,371 <i>(Note)</i>	—	—	139,370,371
Mr. Frankie Lee	4,629,629	—	—	—	4,629,629
Mr. Gordon Cheng	200,000	—	—	—	200,000

*Note: Questrel is the owner of the 139,370,371 shares and is a company controlled by 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.*

### (b) Associated corporation

Name of associated corporation	Nature of interest	Type and number of securities
Emperor International <i>(Note 1)</i>	Family	431,779,770 ordinary shares of HK\$1.00 each
Global Food <i>(Note 2)</i>	Family	675,842,500 ordinary shares of HK\$0.10 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.
- (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.

# DIRECTORS' REPORT

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES *(Continued)*

Save as disclosed above, as at 31st March, 2001, 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' RIGHTS TO ACQUIRE SHARES

Other than the share option schemes of the Company as set out in note 18 to the financial statements, the Company had not granted any right to subscribe for equity or debt securities of the Company to any director or chief executive of the Company or to their spouse or children under 18 years of age.

## SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2001, according to the register of substantial shareholders required to be maintained under Section 16(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 held	Percentage holding
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%

*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 was also deemed to be interested in the above 139,370,371 shares held by Questrel.*

# DIRECTORS' REPORT

## MANAGEMENT SHAREHOLDERS

So far as the directors are aware, as at 31st March, 2001, the following entities were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and who are able, as a practical matter, to direct or influence the management of the Company:

Name	Number of shares held	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%
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 was also deemed to be interested in the above 139,370,371 shares held by Questrel.*

## CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Other than the share option schemes as set out in note 18 to the financial statements, the Company had no outstanding convertible securities, options, warrants or other similar rights as at 31st March, 2001 and there was no exercise of convertible securities, options, warrants or similar rights during the period.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group accounted for approximately 36% of the turnover of the Group and the largest customer accounted for approximately 14% of the Group's total turnover.

Save as disclosed above, none of the directors, their respective associates and shareholders of the Company (which to the knowledge of the directors own more than 5% of the issued capital of the Company) had any interest in any of the five largest customers of the Group for the financial year ended 31st March, 2001.

The aggregate purchases attributable to the five largest suppliers contributed less than 30% of the Group's total purchases.

# DIRECTORS' REPORT

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

During the period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## **AUDIT COMMITTEE**

An audit committee was established on 30th November, 2000 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The two independent non-executive directors of the Company, namely, Mr. Wong Ching Yue and Mr. Tso Hon Sai, Bosco, have been appointed as the members of the audit committee.

Two audit committee meetings were held since its establishment to 31st March, 2001. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

## **DONATIONS**

During the year, the Group made a charitable donation of HK\$650,000.

# DIRECTORS' REPORT

## 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 of the Company, is also an executive director of Star East Holdings Limited ("Star East") and a non-executive director of STAREASTnet.com Corporation ("STAREASTnet.com"). Star East is a listed company engaged in a variety of business including the production of movies, television drama series and documentary programmes, distribution and licensing, entertainment complexes and theme cafes franchising, provision of media agency and promotion services and property investment. It has also further expanded its business to music production and distribution, artiste management and event production. Accordingly, the business of Star East may constitute competition with the business of the Group. The directors consider that Dr. Jackie Chan is a non-executive director of the Company and will not exert management control over the Group.

STAREASTnet.com 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. The directors do not consider STAREASTnet.com 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 causes or may cause significant competition with the business of the Group.

# DIRECTORS' REPORT

## **SPONSOR'S INTERESTS**

Neither the Company's sponsor, BNP Paribas Peregrine Capital Limited ("BNP"), nor its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities) as at 31st March, 2001.

Pursuant to the agreement dated 7th December, 2000 entered into between the Company and BNP, BNP has been retained to act as the Company's sponsor for the period from 7th December, 2000 to 31st March, 2003 in return for an agreed fee.

## **AUDITORS**

During the period, Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company. A resolution will be submitted to the annual general meeting of the Company to re-appoint them as auditors.

On behalf of the Board

**Luk Siu Man, Semon**

*Chairperson*

Hong Kong, 18th June, 2001

# AUDITORS' REPORT

## 德勤·關黃陳方會計師行

Certified Public Accountants  
26/F, Wing On Centre  
111 Connaught Road Central  
Hong Kong

香港中環干諾道中111號  
永安中心26樓

**Deloitte  
Touche  
Tohmatsu**

### **TO THE SHAREHOLDERS OF EMPEROR ENTERTAINMENT GROUP LIMITED**

*(incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 31 to 69 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

### **BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

# AUDITORS' REPORT

## OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st March, 2001 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*

Hong Kong, 18th June, 2001



# CONSOLIDATED INCOME STATEMENT

For the year ended 31st March, 2001

	Notes	2001 HK\$'000 (Note 1)	2000 HK\$'000 (Note 1)
Turnover	3	122,399	52,082
Other revenue		5,768	2,071
Cost of music production and distribution		(64,998)	(52,389)
Cost of self-organised events		(5,883)	(1,852)
Distribution costs		(8,595)	(5,956)
Administrative expenses		(39,364)	(21,528)
Profit (loss) from operations	4	9,327	(27,572)
Finance costs	6	(28)	(41)
Share of results of associates		(611)	(15)
Profit (loss) before taxation		8,688	(27,628)
Taxation	7	—	(5)
Net profit (loss) for the year	8	<u>8,688</u>	<u>(27,633)</u>
Earnings (loss) per share	9		
– basic		<u>5.14 cents</u>	<u>(19.83) cents</u>
– diluted		<u>5.14 cents</u>	<u>N/A</u>

There were no recognised gains or losses other than the net profit (loss) for the year.

# CONSOLIDATED BALANCE SHEET

At 31st March, 2001

	Notes	2001 HK\$'000 (Note 1)	2000 HK\$'000 (Note 1)
<b>Non-current assets</b>			
Property, plant and equipment	10	2,693	1,675
Interests in associates	12	—	(7)
Prepayments and other receivables	13	14,574	2,048
		<u>17,267</u>	<u>3,716</u>
<b>Current assets</b>			
Inventories and record masters	14	2,544	2,523
Trade receivables		26,201	17,157
Prepayments and other receivables	13	37,288	13,338
Taxation recoverable		13	13
Bank balances and cash		99,614	12,383
		<u>165,660</u>	<u>45,414</u>
<b>Current liabilities</b>			
Trade payables		7,553	9,279
Other payables and accrued charges		29,026	19,079
Amount due to ultimate holding company	15	31,424	—
Obligations under finance leases			
– amount due within one year	16	50	116
		<u>68,053</u>	<u>28,474</u>
Net current assets		<u>97,607</u>	<u>16,940</u>
Total assets less current liabilities		<u>114,874</u>	<u>20,656</u>
<b>Non-current liabilities</b>			
Amount due to ultimate holding company	15	—	169,660
Obligations under finance leases			
– amount due after one year	16	—	50
		<u>—</u>	<u>169,710</u>
Net assets (liabilities)		<u>114,874</u>	<u>(149,054)</u>
<b>Capital and reserves</b>			
Share capital	17	2,400	—
Reserves	19	112,474	(149,054)
Balance (deficiency) of shareholders' funds		<u>114,874</u>	<u>(149,054)</u>

The financial statements on pages 31 to 69 were approved by the Board of Directors on 18th June, 2001 and are signed on its behalf by:

**Wong Chi Fai**  
Director

**Fan Man Seung, Vanessa**  
Director

# BALANCE SHEET

At 31st March, 2001

	<i>Notes</i>	<i>HK\$'000</i>
Non-current assets		
Interests in subsidiaries	11	<u>100,270</u>
Current asset		
Bank balance		<u>899</u>
Current liabilities		
Other payables		615
Amount due to a subsidiary		<u>938</u>
		<u>1,553</u>
Net current liabilities		<u>(654)</u>
Net assets		<u><u>99,616</u></u>
Capital and reserves		
Share capital	17	2,400
Reserves	19	<u>97,216</u>
Shareholders' funds		<u><u>99,616</u></u>

**Wong Chi Fai**  
*Director*

**Fan Man Seung, Vanessa**  
*Director*

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March, 2001

	Notes	2001 HK\$'000 (Note 1)	2000 HK\$'000 (Note 1)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	21	<u>(27,823)</u>	<u>(23,810)</u>
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		1,804	91
Finance lease charges paid		<u>(28)</u>	<u>(41)</u>
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		<u>1,776</u>	<u>50</u>
TAXATION			
Hong Kong Profits Tax paid		<u>—</u>	<u>(18)</u>
INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		50	8
Purchase of property, plant and equipment		(3,042)	(1,893)
Increase in amounts due from associates		(618)	(8)
Decrease in amounts due from former group companies		<u>—</u>	<u>30,727</u>
NET CASH (OUTFLOW) INFLOW FROM INVESTING ACTIVITIES		<u>(3,610)</u>	<u>28,834</u>
NET CASH (OUTFLOW) INFLOW BEFORE FINANCING		<u>(29,657)</u>	<u>5,056</u>

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March, 2001

	Notes	2001 HK\$'000 (Note 1)	2000 HK\$'000 (Note 1)
FINANCING	22		
Proceeds from issue of new shares		103,726	—
Expenses paid in connection with the issue of new shares		(14,649)	—
Net cash inflow from ultimate holding company		27,927	4,098
Repayment of obligations under finance leases		(116)	(180)
NET CASH INFLOW FROM FINANCING		<u>116,888</u>	<u>3,918</u>
INCREASE IN CASH AND CASH EQUIVALENTS		87,231	8,974
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		<u>12,383</u>	<u>3,409</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, COMPRISING BANK BALANCES AND CASH		<u><u>99,614</u></u>	<u><u>12,383</u></u>

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31st March, 2001*

## **1. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

The Company was incorporated as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda (as amended) on 17th October, 2000. The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 28.

Pursuant to a series of group reorganisation steps (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group on 30th November, 2000.

The Company's ultimate holding company is Questrel Holdings Limited ("Questrel"), a company which was incorporated in the British Virgin Islands.

The Group Reorganisation involved, inter alia, the transfer to the Company by Questrel of the entire issued share capital in Mile Oak Profits Limited, the intermediate holding company of the Group, in consideration for and in exchange for which the Company (a) allotted and issued, credited as fully paid, one share of the Company of HK\$0.01 to Questrel and (b) credited as fully paid at par all the then existing 10,000,000 shares of the Company of HK\$0.01 each allotted and issued as nil-paid to Questrel on 15th November, 2000 (see note 17(a)).

The shares of the Company were listed on the GEM of the Stock Exchange on 19th December, 2000.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared on the merger accounting basis as if the Company had always been the holding company of the Group in accordance with the Statement of Standard Accounting Practice No. 27 "Accounting for group reconstructions" issued by the Hong Kong Society of Accountants.

Details of the Group Reorganisation are set out in the paragraph headed "Group reorganisation" in Appendix V of the prospectus dated 8th December, 2000 issued by the Company (the "Prospectus").

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31st March, 2001*

## **2. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st March each year, on the basis set out above.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances between group enterprises are eliminated on consolidation.

### **Goodwill and capital reserve**

Goodwill or capital reserve arising on acquisition of a subsidiary represents respectively the excess or shortfall of the purchase consideration over the Group's share of the fair value ascribed to the separable net assets of the subsidiary at the date of acquisition. Goodwill or capital reserve is written off or credited directly to reserves respectively in the year of acquisition.

On disposal of a subsidiary, the attributable amount of goodwill or capital reserve previously written off against or credited to reserves is included in the determination of the gain or loss on disposal.

### **Turnover**

Turnover represents the aggregate of net amounts received and receivable from albums sold, musical work licensed, event production completed and services provided during the year.

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31st March, 2001*

## **2. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

### **Revenue recognition**

Sales of albums are recognised when the albums are delivered and the title has passed.

Licence income is recognised on an accrual basis in accordance with the terms of the relevant agreements.

Artiste management fee income is recognised when the services are provided.

Income from event production is recognised when the events are completed.

Dividend income from investments is recognised when the rights to receive payment have been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Rental income is recognised on a straight line basis over the lease terms.

### **Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation. 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 asset has been put into operation, such as repairs and maintenance and overhaul costs, is charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Property, plant and equipment (Continued)

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account the estimated residual value, using the straight line method, at the following rates per annum:

Leasehold improvements	Over the relevant lease terms
Computer equipment	33 $\frac{1}{3}$ %
Furniture and fixtures	20%
Office equipment	20%
Motor vehicles	20%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the relevant leases.

### Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group.

Assets held under finance leases are capitalised at their fair value at the date of acquisition. The principal portion of the corresponding commitments is shown as an obligation of the Group. Finance costs, which represent the difference between the total commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant leases so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

All other leases are classified as operating leases and the rentals are charged to the income statement on a straight line basis over the relevant lease term.

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31st March, 2001*

## **2. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

### **Investments in subsidiaries**

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any decline in the value of the subsidiary that is other than temporary. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable during the year.

### **Interests in associates**

An associate is an enterprise, other than a subsidiary, in which the Group has a long-term equity interest and over which the Group is in a position to exercise significant influence in management, including participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in the financial statements using the equity method of accounting. The carrying amount of such interests is reduced to recognise any decline, other than a temporary decline, in the value of individual investments.

Where a group enterprise transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Inventories and record masters**

Inventories represent finished goods of audio-visual products and are stated at the lower of cost and net realisable value. The cost of finished goods is calculated using the first-in, first-out method.

Record masters represent accumulated costs incurred in the production of master tapes of which the relevant audio-visual products are not yet released as at the balance sheet date. The amount recognised as an asset is amortised over the estimated life of the record performance using a method that reasonably relates the amount to the net revenue expected to be realised.

### **Taxation**

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expense are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

### **Foreign currencies**

Transactions in foreign currencies are translated at the approximate rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

## 3. TURNOVER

	<b>2001</b> <b>HK\$'000</b> <b>(Note 1)</b>	2000 HK\$'000 (Note 1)
An analysis of the Group's turnover is as follows:		
Music production and distribution		
– sale of albums	<b>70,228</b>	38,016
– licence income	<b>28,566</b>	6,429
	<b>98,794</b>	44,445
Artiste management fee income	<b>16,498</b>	5,151
Event production		
– gross revenue from self-organised events	<b>6,793</b>	2,198
– share of net income from jointly organised events	<b>314</b>	288
	<b>7,107</b>	2,486
	<b>122,399</b>	52,082

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

## 3. TURNOVER (Continued)

The Group's turnover and contribution to operating results, analysed by principal activity and by geographical market, were as follows:

### (a) By activity

	2001		2000	
	Turnover <i>HK\$'000</i> <i>(Note 1)</i>	Contribution to operating results <i>HK\$'000</i> <i>(Note 1)</i>	Turnover <i>HK\$'000</i> <i>(Note 1)</i>	Contribution to operating results <i>HK\$'000</i> <i>(Note 1)</i>
Music production and distribution	98,794	(785)	44,445	(27,844)
Artiste management	16,498	10,411	5,151	1,605
Event production	7,107	(500)	2,486	(689)
	<u>122,399</u>	<u>9,126</u>	<u>52,082</u>	<u>(26,928)</u>
Other revenue not allocated to major activities		2,148		404
General and administrative expenses not allocated to major activities		(1,947)		(1,048)
Profit (loss) from operations		<u>9,327</u>		<u>(27,572)</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

## 3. TURNOVER (Continued)

### (b) By geographical market

	2001		2000	
	Turnover HK\$'000 (Note 1)	Contribution to operating results HK\$'000 (Note 1)	Turnover HK\$'000 (Note 1)	Contribution to operating results HK\$'000 (Note 1)
Greater China				
– Hong Kong	106,179	5,984	45,148	(27,747)
– Mainland China	5,959	1,407	3,265	1,285
– Taiwan	6,761	100	3,669	(466)
Other areas	3,500	1,635	—	—
	<u>122,399</u>	<u>9,126</u>	<u>52,082</u>	<u>(26,928)</u>
Other revenue not allocated to major markets		2,148		404
General and administrative expenses not allocated to major markets		(1,947)		(1,048)
Profit (loss) from operations		<u>9,327</u>		<u>(27,572)</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

## 4. PROFIT (LOSS) FROM OPERATIONS

	2001 HK\$'000 (Note 1)	2000 HK\$'000 (Note 1)
Profit (loss) from operations has been arrived at after charging:		
Directors' remuneration (note 5)	4,072	2,400
Retirement benefits scheme contributions, net of nil forfeited contributions (2000: nil)	449	8
Other staff costs	<u>21,187</u>	<u>10,806</u>
Total staff costs	<u>25,708</u>	<u>13,214</u>
Auditors' remuneration	645	199
Depreciation		
– owned assets	1,819	1,289
– assets held under finance leases	123	269
Loss on disposal of property, plant and equipment	32	43
Operating lease rentals in respect of rented premises	2,150	1,849
Provision for bad and doubtful debts	1,877	1,377
and after crediting:		
Interest income	1,804	91
Rental income	<u>—</u>	<u>191</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

## 5. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

	2001 HK\$'000 (Note 1)	2000 HK\$'000 (Note 1)
<b>Directors</b>		
Independent non-executive directors		
Fees	66	—
Non-executive directors		
Fees	66	—
Executive directors		
Fees	132	—
Salaries and other benefits	3,721	2,400
Bonuses	—	—
Retirement benefits scheme contributions	87	—
	<u>3,940</u>	<u>2,400</u>
Total directors' emoluments	<u><u>4,072</u></u>	<u><u>2,400</u></u>

During the year, each of the four non-executive directors (including the independent non-executive directors) is entitled to director's fees of approximately HK\$33,000.

During the year, the four executive directors received emoluments of approximately HK\$2,753,000 (2000: HK\$2,400,000), approximately HK\$1,121,000 (2000: nil), approximately HK\$33,000 (2000: nil) and approximately HK\$33,000 (2000: nil) respectively.

No emoluments were paid by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office and no director had waived any emoluments during the year.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

## 5. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

(Continued)

### Employees

During the year, the five highest paid individuals included two (2000: one) director(s) of the Company, details of whose emoluments are set out above. The emoluments of the remaining three (2000: four) highest paid employees individuals were as follows:

	<b>2001</b> <b>HK\$'000</b> <b>(Note 1)</b>	2000 <b>HK\$'000</b> <b>(Note 1)</b>
Salaries and other benefits	2,436	2,639
Bonuses	—	—
Retirement benefits scheme contributions	42	—
	<u>2,478</u>	<u>2,639</u>
	<b>Number of individuals</b>	
	<b>2001</b>	2000
Emoluments of the employees were within the following band:		
Nil – HK\$1,000,000	<u>3</u>	<u>4</u>

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31st March, 2001*

## **6. FINANCE COSTS**

The amount represents interest on obligations under finance leases.

## **7. TAXATION**

No provision for Hong Kong Profits Tax was made in the current year financial statements as the estimated assessable profits were wholly absorbed by the tax losses brought forward. The tax charge in the prior year financial statements represented underprovision of tax in previous years.

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

Details of unrecognised deferred taxation for the year are set out in note 20.

## **8. NET PROFIT FOR THE YEAR**

Of the Group's net profit for the year ended 31st March, 2001, a loss of HK\$794,000 has been dealt with in the financial statements of the Company.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

## 9. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share is based on the following data:

### Earnings:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Profit (loss) attributable to shareholders and earnings (loss) for the purpose of basic and diluted earnings (loss) per share	<u>8,688</u>	<u>(27,633)</u>

### Number of shares:

	2001	2000
Weighted average number of shares for the purpose of basic earnings (loss) per share	168,870,016	<u>139,370,371</u>
Effect of dilutive potential shares: Pre-IPO share options	<u>118,491</u>	
Weighted average number of shares for the purpose of diluted earnings per share	<u>168,988,507</u>	

The 139,370,371 shares issued prior to the listing of the Company's shares on the GEM of the Stock Exchange and pursuant to the Group Reorganisation are treated as if they had been outstanding throughout both years.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

## 10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Computer equipment	Furniture and fixtures	Office equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>THE GROUP</b>						
<b>COST</b>						
At 1st April, 2000	1,506	771	635	2,020	673	5,605
Additions	1,140	1,163	398	30	311	3,042
Disposals	(163)	—	—	—	(337)	(500)
<b>At 31st March, 2001</b>	<b>2,483</b>	<b>1,934</b>	<b>1,033</b>	<b>2,050</b>	<b>647</b>	<b>8,147</b>
<b>DEPRECIATION</b>						
At 1st April, 2000	750	491	374	1,911	404	3,930
Provided for the year	853	614	215	74	186	1,942
Eliminated on disposals	(160)	—	—	—	(258)	(418)
<b>At 31st March, 2001</b>	<b>1,443</b>	<b>1,105</b>	<b>589</b>	<b>1,985</b>	<b>332</b>	<b>5,454</b>
<b>NET BOOK VALUES</b>						
<b>At 31st March, 2001</b>	<b>1,040</b>	<b>829</b>	<b>444</b>	<b>65</b>	<b>315</b>	<b>2,693</b>
At 31st March, 2000	756	280	261	109	269	1,675

At 31st March, 2001, the net book value of property, plant and equipment held under finance leases amounted to approximately HK\$67,000 (2000: HK\$269,000).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

## 11. INTERESTS IN SUBSIDIARIES

	<b>THE COMPANY</b> <i>HK\$'000</i>
Unlisted shares, at cost	11,333
Amounts due from subsidiaries	<u>88,937</u>
	<u><u>100,270</u></u>

The cost of investment in subsidiaries reflects the underlying net asset values of the subsidiaries at the date of the acquisition.

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms. In the opinion of the directors of the Company, repayment by the subsidiaries will not be made within the twelve months from the balance sheet date. Accordingly, the amounts are shown as non-current assets.

Particulars of the principal subsidiaries of the Company at 31st March, 2001 are set out in note 28.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

## 12. INTERESTS IN ASSOCIATES

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000 (Note 1)
Share of net liabilities	(626)	(15)
Amounts due from associates	626	8
	<u>—</u>	<u>(7)</u>

Share of net liabilities of associates by the Group represents the Group's obligations to make good losses incurred by the associates.

The amounts due from associates are unsecured and non-interest bearing. Repayment will be made only after the Group's share of losses in relevant associates are made good. The amounts are therefore shown as non-current assets.

Particulars of the Group's associates at 31st March, 2001 are as follows:

Name of associate	Place of incorporation	Attributable equity interest held by the Group	Principal activities
eFoodland Limited	Hong Kong	20%	Internet website operation
eStardream Limited	Hong Kong	50%	Internet website operation

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

## 13. PREPAYMENTS AND OTHER RECEIVABLES

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
		(Note 1)
Prepaid artiste fees	28,902	6,612
Other receivables	22,960	8,774
	<u>51,862</u>	<u>15,386</u>

The amount of prepaid artiste fees is analysed as follows:

Non-current portion	14,574	2,048
Current portion	14,328	4,564
	<u>28,902</u>	<u>6,612</u>

The amount of prepaid artiste fees that is expected to be recouped within twelve months from the balance sheet date is classified as current assets. The remaining balance is classified as non-current assets. Should the directors of the Company consider that the future recoupable amount of a particular artiste is less than the balance of the artiste fees prepaid to that artiste, the extent of shortfall will be charged to the income statement immediately.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

## 14. INVENTORIES AND RECORD MASTERS

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
		(Note 1)
Record masters	2,307	2,003
Finished goods	237	520
	<u>2,544</u>	<u>2,523</u>

At the balance sheet date, the amounts are stated at cost.

## 15. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
		(Note 1)
Current portion (Note)	31,424	—
Non-current portion	—	169,660
	<u>31,424</u>	<u>169,660</u>

The amount is unsecured and non-interest bearing.

*Note: On 4th December, 2000, the ultimate holding company has undertaken to the Company that it will not request the Group to repay part of the outstanding amount due to it in the amount of HK\$26,500,000 for a period of twelve months from the date of the listing of the Company's shares on the GEM of the Stock Exchange, i.e. 19th December, 2000. Amount due to the ultimate holding company will be payable on demand thereafter and accordingly, the outstanding amount at 31st March, 2001 is shown as a current liability.*



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

## 16. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
		(Note 1)
The maturity of obligations under finance leases is analysed as follows:		
Within one year	50	116
More than one year but not exceeding two years	—	50
Total	50	166
Less: Amount due within one year shown under current liabilities	50	116
Amount due after one year	—	50

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

## 17. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Shares of HK\$0.01 each		
<i>Authorised:</i>		
On incorporation	10,000,000	100
Increase in authorised share capital	<u>9,990,000,000</u>	<u>99,900</u>
<b>At 31st March, 2001</b>	<b><u>10,000,000,000</u></b>	<b><u>100,000</u></b>
<i>Issued and fully paid:</i>		
Issue of subscriber's shares	10,000,000	100
Issue of share in accordance with the Group Reorganisation	1	—
Issue of shares by capitalisation of the share premium account	129,370,370	1,294
Pre-IPO Issue (as defined below)	4,629,629	46
Placing of shares to professional and institutional investors	76,800,000	768
Issue of shares to the public	<u>19,200,000</u>	<u>192</u>
<b>At 31st March, 2001</b>	<b><u>240,000,000</u></b>	<b><u>2,400</u></b>

- (a) The Company was incorporated as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda (as amended) on 17th October, 2000 with an authorised share capital of HK\$100,000 divided into 10,000,000 shares of HK\$0.01 each which were allotted and issued as nil-paid to Questrel on 15th November, 2000 and credited as fully paid on 30th November, 2000 (see paragraph (b)(ii) below).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

## 17. SHARE CAPITAL (Continued)

- (b) Pursuant to written resolutions passed by Questrel, the then sole shareholder of the Company, on 30th November, 2000:
  - (i) the authorised share capital of the Company was increased from HK\$100,000 to HK\$100,000,000 by the creation of an additional 9,990,000,000 shares of HK\$0.01 each;
  - (ii) one share of HK\$0.01 was allotted, issued and credited as fully paid, and 10,000,000 shares of HK\$0.01 each allotted and issued as nil-paid to Questrel on 15th November, 2000 refer to in paragraph (a) above were credited as fully paid as consideration for and in exchange for the acquisition by the Company of the entire issued capital of Mile Oak Profits Limited, the intermediate holding company of the Group; and
  - (iii) an amount of HK\$11,233,268, being the net surplus resulting from the share transactions refer to in sub-paragraph (b)(ii) above, was credited to the contributed surplus account of the Company.
- (c) On 15th December, 2000, the Company issued and credited as fully paid 129,370,370 shares of HK\$0.01 each in the Company to Questrel by capitalising HK\$1,293,704 standing to the credit of the share premium account of the Company.
- (d) The Company conditionally approved the allotment and issue of 4,629,629 shares of HK\$0.01 each to Mr. Lee Tsun, Frankie (“Mr. Frankie Lee”), a director of the Company, at the subscription price of HK\$0.01 per share (the “Pre-IPO Issue”). The Pre-IPO Issue subsequently became unconditional. Details of the Pre-IPO Issue are set out in the Prospectus.
- (e) Subject to certain conditions which were subsequently fulfilled, by means of public offer and placing of new shares to professional and institutional investors, the Company allotted and issued a total of 96,000,000 new shares of HK\$0.01 each at a price of HK\$1.08 per share on 15th December, 2000.

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31st March, 2001*

## **17. SHARE CAPITAL** *(Continued)*

All the shares which were issued by the Company during the period rank pari passu with each other in all respects.

The amount of share capital of HK\$32 at 31st March, 2000 represented the share capital of Mile Oak Profits Limited immediately before the Group Reorganisation.

The Company intended to use the net proceeds from the new issue of shares to further develop the Group's business, investment in associates and general working capital requirements.

## **18. SHARE OPTION SCHEMES**

- (a) On 30th November, 2000, the Company adopted a share option scheme (the "Employee Share Option Scheme") under which the Company may grant options to full-time employees, including any directors of the Company or its subsidiaries, to subscribe for shares in the Company. The subscription price for the shares will be a price determined by the directors, but may not be less than the higher of the closing price of the shares on the GEM of the Stock Exchange on the date of grant of the option, the average of the closing prices of the shares on the GEM of the Stock Exchange for the five trading days immediately preceding the date of grant of the option or the nominal value of the shares. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

The maximum number of shares in respect of which options may be granted under the Employee Share Option Scheme may not (when aggregated with shares subject to any other share option schemes, including the Pre-IPO Share Option Scheme as defined in paragraph (b) below) 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 of the Company to each grantee, which period may not expire earlier than three years and later than ten years from the date of grant of the option subject to the provisions for early termination thereof.

The Company had not granted any option under the Employee Share Option Scheme since its adoption.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

## 18. SHARE OPTION SCHEMES (Continued)

- (b) On 30th November, 2000, the Company adopted a second share option scheme (the "Pre-IPO Share Option Scheme"). The principal terms of the Pre-IPO Share Option Scheme are the same as the terms of the Employee Share Option Scheme except that:
- (i) the subscription price for shares is the higher of the issue price of HK\$1.08 (subject to adjustment) or the nominal value of the Company's shares;
  - (ii) the total number of shares subject to the Pre-IPO Share Option Scheme will not exceed 9,259,259 shares;
  - (iii) the grantees eligible for the options comprise only executive directors of the Company; and
  - (iv) the right for options to be granted and offered ends upon listing of the Company's shares on the GEM of the Stock Exchange.

The Company has during the year granted to Mr. Frankie Lee options 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 twelve months from the expiry of twelve months from 19th December, 2000, the date on which the Company's shares were listed on the GEM of the Stock Exchange, but shall lapse when Mr. Frankie Lee ceases to be employed by the Group. All the 9,259,259 option shares remained outstanding at 31st March, 2001. Subsequent to the balance sheet date, Mr. Frankie Lee proposed to resign and the Company has accepted his resignation as an executive director and chief executive officer of the Company with effect from 30th June, 2001. Outstanding options granted to Mr. Frankie Lee will lapse thereafter.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

## 19. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Special reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
<b>THE GROUP</b>					
At 1st April, 1999	—	—	—	(121,421)	(121,421)
Net loss for the year	—	—	—	(27,633)	(27,633)
At 31st March, 2000	—	—	—	(149,054)	(149,054)
Surplus arising on the Group Reorganisation	—	91,163	—	—	91,163
Capitalisation of reserve on paying up nil-paid shares	—	(100)	—	—	(100)
Waiver of advances from Questrel as part of the Group Reorganisation	—	—	75,000	—	75,000
Premium arising on issue of new shares	102,720	—	—	—	102,720
Capitalisation issue	(1,294)	—	—	—	(1,294)
Expenses incurred in connection with the issue of new shares	(14,649)	—	—	—	(14,649)
Net profit for the year	—	—	—	8,688	8,688
<b>At 31st March, 2001</b>	<b>86,777</b>	<b>91,063</b>	<b>75,000</b>	<b>(140,366)</b>	<b>112,474</b>
<b>THE COMPANY</b>					
Surplus arising on the Group Reorganisation	—	11,333	—	—	11,333
Capitalisation of reserve on paying up nil-paid shares	—	(100)	—	—	(100)
Premium arising on issue of new shares	102,720	—	—	—	102,720
Capitalisation issue	(1,294)	—	—	—	(1,294)
Expenses incurred in connection with the issue of new shares	(14,649)	—	—	—	(14,649)
Net loss for the period	—	—	—	(794)	(794)
<b>At 31st March, 2001</b>	<b>86,777</b>	<b>11,233</b>	<b>—</b>	<b>(794)</b>	<b>97,216</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

## 19. RESERVES (Continued)

- (a) The contributed surplus of the Group represents the difference between the aggregate of the nominal amount of the share capital and share premium of the subsidiaries at the date on which they were acquired by the Group and the nominal amount of the share capital issued as consideration for the acquisition.

The contributed surplus of the Company represents the difference between the consolidated net assets of the Company's subsidiaries and the nominal value of the Company's shares issued pursuant to the Group Reorganisation effective on 30th November, 2000.

Under the company law in Bermuda, the contributed surplus of the Company is available for distribution to shareholders. However, a company cannot declare or pay a dividend or make a distribution out of contributed surplus if there are reasonable grounds for believing that:

- (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or
  - (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.
- (b) The special reserve of the Group represents advances of HK\$75,000,000 from Questrel which were waived by Questrel as part of the Group Reorganisation.

In the opinion of the directors of the Company, the Company's reserves available for distribution to shareholders at 31st March, 2001 are as follows:

	<i>HK\$'000</i>
Contributed surplus	11,233
Accumulated losses	(794)
	<hr/>
	<b>10,439</b>
	<hr/> <hr/>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

## 20. UNRECOGNISED DEFERRED TAX ASSET

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
		(Note 1)
At beginning of the year	20,291	17,105
(Credit) charge for the year	(4,117)	3,186
At end of year	<u>16,174</u>	<u>20,291</u>

At the balance sheet date, the unrecognised deferred tax asset represented principally the tax effect of timing differences attributable to tax losses available to relieve future assessable profits. The deferred tax asset has not been recognised in the financial statements as it is not certain that the tax benefit will be realised in the foreseeable future.

The Company had no significant unrecognised deferred taxation during the period or at the balance sheet date.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

## 21. RECONCILIATION OF PROFIT (LOSS) BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2001 <i>HK\$'000</i> <i>(Note 1)</i>	2000 <i>HK\$'000</i> <i>(Note 1)</i>
Profit (loss) before taxation	8,688	(27,628)
Share of results of associates	611	15
Finance lease charges	28	41
Interest income	(1,804)	(91)
Depreciation	1,942	1,558
Loss on disposal of property, plant and equipment	32	43
(Increase) decrease in inventories and record masters	(21)	9,227
Increase in trade receivables	(9,044)	(8,538)
Increase in prepayments and other receivables	(36,476)	(15,386)
Decrease in trade payables	(1,726)	(2,171)
Increase in other payables and accrued charges	9,947	19,120
Net cash outflow from operating activities	<u>(27,823)</u>	<u>(23,810)</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

## 22. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium <i>HK\$'000</i> <i>(Note 1)</i>	Amount due to ultimate holding company <i>HK\$'000</i> <i>(Note 1)</i>	Obligations under finance leases <i>HK\$'000</i> <i>(Note 1)</i>
At 1st April, 1999	—	155,562	346
Non-cash transaction arising from the Group Reorganisation	—	10,000	—
Net cash inflow from financing	—	4,098	—
Repayment	—	—	(180)
	<hr/>	<hr/>	<hr/>
At 31st March, 2000	—	169,660	166
Capitalisation of reserve on paying up nil-paid shares	100	—	—
Proceeds from issue of new shares	103,726	—	—
Expenses in connection with the issue of new shares	(14,649)	—	—
Capitalisation of advances made by Questrel to Mile Oak Profits Limited as part of the Group Reorganisation	—	(91,163)	—
Waiver of advances	—	(75,000)	—
Net cash inflow from financing	—	27,927	—
Repayment	—	—	(116)
	<hr/>	<hr/>	<hr/>
<b>At 31st March, 2001</b>	<b><u>89,177</u></b>	<b><u>31,424</u></b>	<b><u>50</u></b>

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31st March, 2001*

## **23. RETIREMENT BENEFITS SCHEME**

The Group operates a defined contribution retirement benefits scheme (the “ORSO Scheme”) for employees joining the Group before 1st December, 2000. The assets of the ORSO Scheme are held separately from those of the Group in funds under the control of the independent trustees.

In light of the introduction of the Mandatory Provident Fund Scheme (the “MPF Scheme”), all the employees were granted a one-off option to elect to switch to the MPF Scheme or stay with the ORSO Scheme.

The cost charged to the income statement represented contributions payable to both schemes by the Group at rates specified in the rules of respective schemes. Where there are employees who have elected to stay with the ORSO Scheme and leave the ORSO Scheme prior to vesting fully in the contributions, the contributions payable by the Group in the future years are reduced by the amount of forfeited contributions.

At the balance sheet date, the total amount of forfeited contributions of the ORSO Scheme, which arose upon employees leaving the ORSO Scheme and which are available to reduce the contributions payable by the Group in the future years was not significant.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

## 24. CAPITAL COMMITMENTS

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
		(Note 1)
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	<u>405</u>	<u>—</u>

The Company had no significant capital commitments at 31st March, 2001.

## 25. OPERATING LEASE COMMITMENTS

At 31st March, 2001, the Group had outstanding commitments under non-cancellable operating leases in respect of rented premises. The portion of these commitments which is payable in the following year is as follows:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
		(Note 1)
Operating leases which expire:		
Within one year	291	14
In the second to fifth year inclusive	<u>1,800</u>	<u>1,301</u>
	<u>2,091</u>	<u>1,315</u>

The Company had no significant operating leases commitments at 31st March, 2001.

## 26. OTHER COMMITMENTS

At 31st March, 2001, the Group was committed to pay an aggregate sum of approximately HK\$18,290,000 (2000: HK\$14,260,000) in respect of artiste fees.

The Company had no significant other commitments at 31st March, 2001.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

## 27. RELATED PARTY TRANSACTIONS

- (a) During the year ended 31st March, 2001, the Group had the following transactions with related parties as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Administration fees paid	180	216
Advertising agency commission and other fees paid	432	—
Advertising and promotion expenses paid	617	276
Advisory fee paid	500	—
Car park rentals paid	101	—
Fees paid for back office support services (including internal auditing, accounting, human resources and administrative services)	855	—
Fees paid for designing, building and hosting of websites	1,039	—
Fees paid for other professional services (including information technology, legal and secretarial services)	376	—
Initial investment (including capital contributions and advances) in eStardream Limited	11	—
Initial investment (including capital contributions and advances) in eFoodland Limited	607	—
Management fees paid	67	—
Operating lease rentals paid	183	464
Printing expenses paid	276	—
Underwriting commission fees paid	1,692	—
Management fees received	—	75
Rental received	—	191

The related parties and the Group were under the control of a common shareholder, Mr. Yeung Sau Shing, Albert.

In the opinion of the directors of the Company, the above transactions were carried out in the usual course of business and in accordance with the pricing policies of the Group.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

## 27. RELATED PARTY TRANSACTIONS (Continued)

- (b) On 30th June, 2000, part of the advances from Questrel in the amount of HK\$75,000,000 was waived by Questrel as part of the Group Reorganisation.
- (c) On 26th April, 1999, two wholly-owned subsidiaries of the Company (collectively the “EEG Companies”) jointly entered into a licence agreement with Glorious Twelfth Holdings Limited (“Glorious Twelfth”), a then indirect wholly-owned subsidiary of Questrel, and another licence agreement with Record Breakers Limited (“Record Breakers”), also a then indirect wholly-owned subsidiary of Questrel, under which Glorious Twelfth and Record Breakers were collectively granted the Internet streaming rights, being the right to exhibit or broadcast on the Internet, of all song recordings (both in audio and audio-visual format) owned by the EEG Companies and all song recordings (both in audio and audio-visual format) produced or to be produced and owned by the EEG Companies within the period from 26th April, 1999 to 31st December, 2003 for a consideration of HK\$1 under each agreement. Both Glorious Twelfth and Record Breakers are entitled to enjoy the relevant Internet streaming rights up to 25th April, 2049.
- (d) On 26th April, 1999, a wholly-owned subsidiary of the Company together with its former holding company, an indirect non wholly-owned subsidiary of Questrel, (collectively the “Fitto Companies”) jointly entered into a licence agreement with Glorious Twelfth and another licence agreement with Record Breakers, under which Glorious Twelfth and Record Breakers were collectively granted the Internet streaming rights of all song recordings (both in audio and audio-visual format) owned by the Fitto Companies and all song recordings (both in audio and audio-visual format) produced and to be produced and owned by the Fitto Companies within the period from 26th April, 1999 to 31st December, 2003 for a consideration of HK\$1 under each agreement. Both Glorious Twelfth and Record Breakers are entitled to enjoy the relevant Internet streaming rights up to 25th April, 2049.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

## 28. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company at 31st March, 2001 are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital	Principal activities
Mile Oak Profits Limited	British Virgin Islands	US\$6	Investment holding
EEG Music Publishing Limited	Hong Kong	HK\$2	Licensing of musical works
Emperor Entertainment Group (Taiwan) Limited	British Virgin Islands/ Taiwan	US\$1	Trading and production of audio-visual products and provision of agency services
Emperor Entertainment (Hong Kong) Limited (formerly known as Fitto Entertainment Company Limited)	Hong Kong	HK\$10,000,000	Investment holding, trading and production of audio-visual products and provision of management services to artistes
Emperor Entertainment Limited	Hong Kong	HK\$2	Trading and production of audio-visual products and provision of management services to artistes
Fitto Publishing Company Limited	Hong Kong	HK\$2	Licensing of musical works

The Company directly holds the interest in Mile Oak Profits Limited, all other interests are indirectly held. All subsidiaries are wholly-owned by the Company.

The above table lists the subsidiaries of the Company, which, in the opinion of the directors of the Company, principally affected the results of the year or constituted a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

# FINANCIAL SUMMARY

	Year ended 31st March,		
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
<b>RESULTS</b>			
Turnover	<b>122,399</b>	52,082	12,253
Other revenue	<b>5,768</b>	2,071	1,400
Cost of music production and distribution	<b>(64,998)</b>	(52,389)	(15,727)
Cost of self-organised events	<b>(5,883)</b>	(1,852)	—
Distribution costs	<b>(8,595)</b>	(5,956)	(4,707)
Administrative expenses	<b>(39,364)</b>	(21,528)	(13,072)
Profit (loss) from operations	<b>9,327</b>	(27,572)	(19,853)
Finance costs	<b>(28)</b>	(41)	(96)
Share of results of associates	<b>(611)</b>	(15)	—
Profit (loss) before taxation	<b>8,688</b>	(27,628)	(19,949)
Taxation	—	(5)	—
Net profit (loss) for the year	<b><u>8,688</u></b>	<b><u>(27,633)</u></b>	<b><u>(19,949)</u></b>

*Notes:*

1. The results for each of the three years ended 31st March, 2001 have been prepared on a merger accounting basis as if the group structure immediately after the group reorganisation effective on 30th November, 2000 had been in existence since 1st April, 1998.
2. The Company was incorporated in Bermuda on 17th October, 2000. Accordingly, the only consolidated balance sheets for the Group that have been prepared are set out on page 32.