

# EEG

ENTERTAINMENT GROUP HOLDINGS

娛樂集團有限公司

(Incorporated in Bermuda with limited liability)

## First Quarterly Report 2001



**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.**

*The Stock Exchange takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*

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

## **MANAGEMENT DISCUSSION AND ANALYSIS**

For the three months ended 30th June, 2001 (“Quarterly Period”), the Company and its subsidiaries (collectively referred to as the “Group”) recorded a loss of approximately HK\$1.79 million, compared to a loss of approximately HK\$1.5 million for the last corresponding period. The turnover of the Group increased by 36.7% to approximately HK\$29.98 million as compared with HK\$21.93 million for the previous corresponding period.

### **OPERATION REVIEW**

#### **Music Production and Distribution**

Turnover of the sales of albums and the licensing of music videos, songs and catalogues for the Quarterly Period amounted to approximately HK\$19.97 million, representing an increase of about 23.9% from that of the last corresponding period. With the strong artiste base of the Group, both the number of releases and the number of albums sold of the Group’s contract artistes increased during the Quarterly Period. To suit different customer segments, the Group has entered into a licence agreement with an international record company for licensing of record during the Quarterly Period.

During the Quarterly Period, the Taiwan branch office was closed down as part of the cost rationalisation program of the Group. 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 would continue to work closely with the Taiwan local record companies to formulate and implement the Group’s business plan in Taiwan.

#### **Artiste Management**

During the Quarterly Period, the artiste management fee income of the Group slightly decreased by 9.8% to approximately HK\$5.24 million.

The Group has just signed up a green but promising artiste during the Quarterly Period. There were 22 artistes under the Group as compared to 11 artistes as at the end of the last corresponding period. To sustain its competitive edge, the Group would continue sourcing quality artistes.

#### **Event Production**

There were 2 concerts organized by the Group during the Quarterly Period with 1 being self-organized and 1 being co-organized with other parties. The turnover from this business sector amounted to approximately HK\$4.76 million and a loss of about HK\$0.78 million was recorded. With the growing experience of the Group in this industry, the profit margin from this business should improve.

## **CORPORATE EXERCISES**

In June 2001, the Group raised a net amount of approximately HK\$19.04 million by way of top-up placement of 20,000,000 shares in the capital of the Company to independent investors at a price of HK\$0.98 per share ("Top-up Placement"). The Top-up Placement has strengthened the cash position of the Group and allowed the Group greater flexibility to expand its core business.

To diversify its business in the entertainment industry, the Group entered into a conditional sale and purchase agreement in July 2001 with Questrel Holdings Limited ("Questrel"), its substantial shareholder, for the acquisition of the entire interest of Emperor Movie Holdings Limited ("EMG") and the outstanding loan due to Questrel from EMG at a consideration of approximately HK\$52.78 million ("Acquisition"). EMG is an investment holding company with its subsidiaries principally engaged in artiste management, movie and television programs production and distribution and the production of multimedia entertainment products.

## **FINANCIAL RESOURCES**

As a result of the initial public offering, the Company raised net proceeds of approximately HK\$89.0 million ("IPO Proceeds"). The over-allotment option granted to the placing underwriters has not been exercised by BNP Paribas Peregrine Securities Limited. Subsequent to the initial public offering up to 31st March, 2001, IPO Proceeds to the extent of approximately HK\$6.0 million had been spent in development of music production and distribution business and event production business. During the Quarterly Period, approximately HK\$10.0 million had been further utilized in developing these businesses. This was in line with the Board of Directors' (the "Board" or the "Directors") intention as stated in the prospectus of the Company dated 8th December, 2000 (the "Prospectus"). Owing to the slowdown of the projects in eFoodland Limited ("eFoodland") and eStardream Limited ("eStardream") in view of the market conditions relating to Internet business, no further investment had been made in eFoodland and eStardream during the Quarterly Period as compared with the expected further investment of HK\$0.75 million at the time of initial listing. Balance of the IPO Proceeds was placed on short-term deposit with banks or financial institutions in Hong Kong.

The Acquisition was completed on 10th August, 2001 and the consideration was partly funded by the proceeds raised from the Top-up Placement and partly funded by the IPO Proceeds. In view of the expansion of the Group's business, the Board announced on 4th July, 2001 of its intention to change the use of the IPO Proceeds. After completion of the Acquisition, balance of the IPO Proceeds will be applied to finance the music entertainment and movies business in general. Together with the cash flow generated by the operation of the Group in its ordinary course of business and its existing loan facilities, the Board expects that the Group will have sufficient working capital for its operation.

## PROSPECTS

With the Acquisition, this represented a good opportunity for a horizontal integration in the entertainment industry and to capitalize the experience and resources of the Group in the entertainment industry and strengthen its market position in the entertainment business by diversifying its business into the movie and television program production. After the Acquisition, the Group will have a comprehensive multimedia entertainment platform comprising music production, movie and television programs production and distribution, artiste management, events production and production of multimedia entertainment products.

During the period, Mr. Lee Tsun, Frankie (“Mr. Frankie Lee”) had tendered resignation as an executive director and Chief Executive Officer of the Company. 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 already 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. To broaden its income stream, the Group would also continue to look for good opportunities to diversify into other promising entertainment sectors. The management is optimistic that the Group can achieve better results in the coming quarter.

## RESULTS

The Board is pleased to announce the unaudited consolidated results of the Group for the Quarterly Period together with the comparative unaudited figures for the corresponding period in 2000 as follows:

|   |              | <b>Three months ended</b> |                     |
|---|--------------|---------------------------|---------------------|
|   |              | <b>30th June,</b>         |                     |
|   |              | <b>2001</b>               | <b>2000</b>         |
|   | <i>Notes</i> | <i>HK\$'000</i>           | <i>HK\$'000</i>     |
| Turnover                                  | 2            | 29,976                    | 21,929              |
| Other revenue                             |              | 1,957                     | 482                 |
| Cost of music production and distribution |              | (16,860)                  | (15,117)            |
| Cost of self-organised events             |              | (5,539)                   | —                   |
| Distribution costs                        |              | (1,149)                   | (1,536)             |
| Administrative expenses                   |              | (10,165)                  | (7,025)             |
|   |              | <hr/>                     | <hr/>               |
| Loss from operations                      |              | (1,780)                   | (1,267)             |
| Finance costs                             |              | (13)                      | (10)                |
| Share of results of associates            |              | —                         | (221)               |
|   |              | <hr/>                     | <hr/>               |
| Loss before taxation                      |              | (1,793)                   | (1,498)             |
| Taxation                                  | 3            | —                         | —                   |
|   |              | <hr/>                     | <hr/>               |
| Loss attributable to shareholders         |              | <u>(1,793)</u>            | <u>(1,498)</u>      |
|   |              | <hr/>                     | <hr/>               |
| Loss per share – basic                    | 4            | <u>(0.75) cent</u>        | <u>(1.08) cents</u> |

## 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.

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 GEM of the Stock Exchange, the Company became the holding company of the Group on 30th November, 2000.

The Company's ultimate holding company is 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.

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.

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

## 2. Turnover

**Three months ended**  
**30th June,**  
**2001**                      **2000**  
*HK\$'000*                      *HK\$'000*

An analysis of turnover is as follows:

### Music production and distribution

|                  |        |        |
|------------------|--------|--------|
| – sale of albums | 19,003 | 14,688 |
| – licence income | 965    | 1,434  |

|  |        |        |
|--|--------|--------|
|  | 19,968 | 16,122 |
|--|--------|--------|

### Artiste management fee income

|  |       |       |
|--|-------|-------|
|  | 5,244 | 5,807 |
|--|-------|-------|

### Event production

|   |       |   |
|---|-------|---|
| – gross revenue from self-organised events          | 4,720 | — |
| – share of net income from jointly organised events | 44    | — |

|  |       |   |
|--|-------|---|
|  | 4,764 | — |
|--|-------|---|

|  |        |        |
|--|--------|--------|
|  | 29,976 | 21,929 |
|--|--------|--------|

## 3. Taxation

No provision for Hong Kong Profits Tax was made as the Group had no assessable profits during the Quarterly Period and the corresponding period in 2000.

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

The Group had no share of taxation in the associates during the Quarterly Period and the corresponding period in 2000.

The Group did not have any significant deferred taxation in respect of the Quarterly Period and the corresponding period in 2000.

## 4. Loss per share

The calculation of basic loss per share for the Quarterly Period is based on the unaudited consolidated loss attributable to shareholders of approximately HK\$1,793,000 (2000: HK\$1,498,000) and on 240,000,000 ordinary shares (2000: 139,370,371 ordinary shares) outstanding.

No amount for diluted loss per share has been presented for the Quarterly Period as it is assumed that no share options are exercised as their exercise prices are higher than the average market price of the Company's shares during the period.

No amount for diluted loss per share was disclosed for the corresponding period in 2000 as the Company had no dilutive potential ordinary shares for the period.



## 5. Movement of reserves

Analyses of the movement of reserves are shown as follow:

|  | Share<br>premium<br>HK\$'000 | Contributed<br>surplus<br>HK\$'000 | Special<br>reserve<br>HK\$'000 | Accumulated<br>losses<br>HK\$'000 | Total<br>HK\$'000 |
|--|------------------------------|------------------------------------|--------------------------------|-----------------------------------|-------------------|
| Balance at 1st April, 2000   | —                            | —                                  | —                              | (149,054)                         | (149,054)         |
| Waiver of advances from<br>Questrel as part of the<br>Group Reorganisation | —                            | —                                  | 75,000                         | —                                 | 75,000            |
| Net loss for the period  | —                            | —                                  | —                              | (1,498)                           | (1,498)           |
| Balance at 30th June, 2000   | —                            | —                                  | 75,000                         | (150,552)                         | (75,552)          |
| Surplus arising on the<br>Group Reorganisation                             | —                            | 91,163                             | —                              | —                                 | 91,163            |
| Capitalisation of reserve on<br>paying up nil-paid shares                  | —                            | (100)                              | —                              | —                                 | (100)             |
| Premium arising on issue of<br>new shares                                  | 102,720                      | —                                  | —                              | —                                 | 102,720           |
| Capitalisation issue   | (1,294)                      | —                                  | —                              | —                                 | (1,294)           |
| Expenses incurred in connection<br>with the issue of new shares            | (14,649)                     | —                                  | —                              | —                                 | (14,649)          |
| Net profit for the period  | —                            | —                                  | —                              | 10,186                            | 10,186            |
| Balances at 31st March, 2001   | 86,777                       | 91,063                             | 75,000                         | (140,366)                         | 112,474           |
| Net loss for the period  | —                            | —                                  | —                              | (1,793)                           | (1,793)           |
| Balances at 30th June, 2001  | <u>86,777</u>                | <u>91,063</u>                      | <u>75,000</u>                  | <u>(142,159)</u>                  | <u>110,681</u>    |

## INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the Quarterly Period (2000: Nil).

## DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN SECURITIES

As at 30th June, 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:

### The Company

| Name of Director                        | Personal Interest | Family Interest    | Corporate Interest | Other Interest | Total       |
|---|-------------------|--------------------|--------------------|----------------|-------------|
| Luk Siu Man, Semon<br>("Ms. Semon Luk") | Nil               | 124,000,000 (Note) | Nil                | Nil            | 124,000,000 |
| Cheng Yiu Keung                         | 500,000           | Nil                | Nil                | Nil            | 500,000     |

Note: Questrel is the owner of the 124,000,000 shares and is a company controlled by Mr. Yeung Sau Shing, Albert ("Mr. Albert Yeung"), spouse of Ms. Semon Luk. Accordingly, Ms. Semon Luk was deemed to be interested in the 124,000,000 shares held by Questrel.

### Associated Corporation

| Name of Associated Corporation                        | Nature of Interest | Type and number of securities                |
|---|--------------------|--|
| Emperor International Holdings Limited <sup>(1)</sup> | Family             | 431,779,770 ordinary shares of HK\$1.00 each |
| Global Food Culture Group Limited <sup>(2)</sup>      | Family             | 676,564,500 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 Holdings Limited.
- (2) These shares are registered in the name of and beneficially owned by, Forever Rich Profits Limited, an indirect wholly owned subsidiary of Questrel. Accordingly, Ms. Semon Luk was deemed to be interested in the 676,564,500 shares in Global Food Culture Group Limited.

Save as disclosed above, as at 30th June, 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 GEM of the Stock Exchange pursuant to the minimum standards of dealing by directors as referred to in Rule 5.40 of the GEM Listing Rules.

## DIRECTORS' RIGHT TO ACQUIRE SHARES

Pursuant to the Pre-IPO Share Option Scheme adopted by the Company on 30th November, 2000, Mr. Frankie Lee, the former Chief Executive Officer of the Company was granted option to subscribe for 9,259,259 shares of the Company at a subscription price of HK\$1.08 per share (subject to adjustment). The option lapsed upon the resignation of Mr. Frankie Lee with effect from 30th June, 2001.

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

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

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

Save as disclosed above, as at 30th June, 2001, the Company had not granted any right to subscribe for equity or debt securities of the Company to any director or chief executive director of the Company or to their spouse or children under 18 years of age.

## **SUBSTANTIAL SHAREHOLDERS**

As at 30th June, 2001, according to the register of substantial shareholders required to be maintained under S16(1) of the SDI Ordinance, the Company had been notified of the following interests, being 10% or more in the issued share capital of the Company:

| <b>Name</b>      | <b>Number of Shares</b> | <b>Percentage Holding</b> |
|------------------|-------------------------|---------------------------|
| Questrel         | 124,000,000             | 51.67%                    |
| Mr. Albert Yeung | 124,000,000(Note)       | 51.67%                    |
| Ms. Semon Luk    | 124,000,000(Note)       | 51.67%                    |

*Note: Questrel is the owner of the 124,000,000 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 124,000,000 shares held by Questrel. By virtue of the above interests of Mr. Albert Yeung, Ms. Semon Luk is also deemed to be interested in the above 124,000,000 shares held by Questrel.*

## **MANAGEMENT SHAREHOLDERS**

So far as the Directors are aware, as at 30th June, 2001, the following persons were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings the Company and who are able, as a practical matter, to direct or influence the management of the Company:

| <b>Name</b>      | <b>Number of Shares Held</b> | <b>Approximate Percentage of Shareholding</b> |
|------------------|------------------------------|---|
| Questrel         | 124,000,000                  | 51.67%  |
| Mr. Albert Yeung | 124,000,000(Note)            | 51.67%  |
| Ms. Semon Luk    | 124,000,000(Note)            | 51.67%  |

*Note: Questrel is the owner of the 124,000,000 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 124,000,000 shares held by Questrel. By virtue of the above interests of Mr. Albert Yeung, Ms. Semon Luk is also deemed to be interested in the above 124,000,000 shares held by Questrel.*

## **SPONSORS' INTERESTS**

As updated and notified by the Company's sponsors, BNP Paribas Peregrine Capital Limited (the "Sponsor"), as at 30th June, 2001 neither of the Sponsor nor any of their respective directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the Company's share capital.

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

## **COMPETING INTERESTS**

Dr. Chan Kong Sang, Jackie (“Dr. Jackie Chan”), a non-executive director of both the Company and EMG, is also a director and shareholder of Climbing High Productions Limited, Jackie & Willie Productions Limited, Jackie & Willie Enterprises Limited and Filmtech Lighting Services Limited and he is a director of Tai Wui Motion Pictures Company Limited (together referred as “the Movies Companies”) which business involve production and distribution of movies, Dr. Jackie Chan 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. 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. Accordingly, the business of Star East, STAREASTnet.com and the Movies Companies 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 EMG and will not exert management control over the Group.

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

## **AUDIT COMMITTEE**

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

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

The shares of the Company only commenced trading on GEM on 19th December, 2000. Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the period ended 30th June, 2001.

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

Hong Kong, 13th August, 2001