

# EEG

EMPEROR ENTERTAINMENT GROUP LIMITED

英皇娛樂集團有限公司

(Incorporated in Hong Kong with limited liability)

## Third Quarterly 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.**

*The Stock Exchange takes no responsibility for the contents of this report, 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 report.*

*This report, 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 report 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 report misleading; and (3) all opinions expressed in this report 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 (the “Three-Month Period”) and nine months (the “Nine-Month Period”) ended 31st December, 2001, the Company and its subsidiaries (collectively referred to as the “Group”) recorded a loss of approximately HK\$2.08 million and HK\$12.42 million respectively, as compared with a profit of approximately HK\$1.55 million and a loss of approximately HK\$1.53 million respectively for the last corresponding periods. During the same periods, turnover of the Group almost doubled and increased by 42.79% to approximately HK\$64.56 million and HK\$118.64 million respectively as compared with approximately HK\$32.30 million and HK\$83.09 million for the previous corresponding periods.

### **OPERATION REVIEW**

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

During the Nine-Month Period, the Group and its artistes won 73 awards including 2001 Syndicated Annual Music Award – Album, 2001 Syndicated Annual Music Award – Singer, 2001 Syndicated Outstanding Performance Award, CR2 903 Ultimate Song of the Year Award, Metro Radio’s Hit Awards 2001, TVB JSG Best Ten Awards and RTHK Top Ten Chinese Gold Songs Awards as compared with 41 awards for the previous corresponding period.

Despite the increasing popularity and the recognition accorded by the public and the industry to the Group’s record release, turnover of the Group from this business sector for the Nine-Month Period suffered a drop of about 13.54% to approximately HK\$54.44 million due to the debilitated purchasing power.

#### **Film and Television Programs Production and Distribution**

Since the Company’s acquisition of Emperor Movie Holdings Limited (“EMG”) and its subsidiaries (collectively referred to as the “EMG Group”) (the “Acquisition”), the EMG Group had released three films and one television program. Another five films and one television program were in various production stages as at the end of the Nine-Month Period.

During the Nine-Month Period, turnover of film and television programs production and distribution contributed approximately HK\$14.88 million to the Group. However, the EMG Group is still at its investment stage. Result is expected to improve upon further release of new films.

## **Artiste Management**

The artiste management fee income of the Group for the Nine-Month Period dropped slightly by 1.95% to approximately HK\$12.85 million, as compared with that of the last corresponding period.

As at the end of the Nine-Month Period, there were 29 artistes under the Group (including six contracted artistes from the EMG Group), as compared with 22 artistes as at the end of the last corresponding period. The Group had signed up three green but promising artistes during the Nine-Month Period, and one more artiste was recruited shortly after the Nine-Month Period.

## **Event Production**

Six concerts were organized by the Group during the Nine-Month Period – three being self-organized and three being co-organized with other parties. Turnover from this business sector amounted to approximately HK\$36.47 million and a profit of about HK\$5.56 million was recorded, representing approximately 5.20 times and 3.93 times of that of the last corresponding period respectively.

## **FINANCIAL RESOURCES**

In view of the expansion of the Group's business, the usage of net proceeds raised from the initial public offering of approximately HK\$88.0 million ("IPO Proceeds") was modified as stated in the circular dated 20th July, 2001. By 30th September, 2001, the Group had fully utilized the IPO Proceeds in accordance with the revised use of proceeds, i.e. HK\$12.0 million for development of music production and distribution business, HK\$4.0 million for development of event production business, HK\$33.0 million for the Acquisition, and HK\$39.0 million for general working capital of the Group, which was mainly applied for development of film and television programs production and distribution business of the EMG Group.

As at 31st December, 2001, the unsecured loans from Questrel Holdings Limited (“Questrel”), its substantial and controlling shareholder, were approximately HK\$90.96 million, which are interest bearing at Hong Kong prime rate and have no fixed repayment term. 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 of Directors (“the Board” or “the Directors”) expected the Group to have sufficient working capital for its operation.

## **PROSPECTS**

During the Nine-Month Period, the Group had diversified into a comprehensive multimedia entertainment organization. While certain business sectors like film production still required time to mature, other areas like music production and distribution and event production already managed to secure a strong foothold in the industry, as evidenced by the numerous awards won by the Group and the substantive revenue generated from concerts. The management would continue to open up new market for its businesses on the one hand and closely monitor its operating cost on the other hand to improve the performance of the Group in the midst of the poor economic climate.

## RESULTS

The Board is pleased to announce the unaudited consolidated results of the Group for the Three-Month Period and the Nine-Month Period together with the comparative unaudited figures for the corresponding periods in 2000 as follows:

	Notes	Three months ended		Nine months ended	
		31st December,		31st December,	
		2001	2000	2001	2000
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	64,559	32,304	118,643	83,087
Other revenue		1,999	547	4,945	2,214
Cost of music production and distribution		(18,406)	(16,020)	(46,836)	(49,057)
Cost of film and television programs production and distribution		(10,350)	—	(18,271)	—
Cost of self-organised events		(25,375)	(2,378)	(30,914)	(5,604)
Distribution costs		(1,188)	(2,211)	(5,136)	(5,563)
Administrative expenses		(12,695)	(10,647)	(33,910)	(26,251)
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
(Loss)/Profit from operations		(1,456)	1,595	(11,479)	(1,174)
Finance costs		(750)	(6)	(1,165)	(23)
Share of results of associates		—	(41)	—	(337)
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
(Loss)/Profit before taxation		(2,206)	1,548	(12,644)	(1,534)
Taxation	3	—	—	—	—
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
(Loss)/Profit before minority interest		(2,206)	1,548	(12,644)	(1,534)
Minority interest		127	—	226	—
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
(Loss)/Profit attributable to shareholders		<u>(2,079)</u>	<u>1,548</u>	<u>(12,418)</u>	<u>(1,534)</u>
(Loss)/Earnings per share					
– basic	4	<u>(0.80) cent</u>	<u>0.98 cent</u>	<u>(4.91) cents</u>	<u>(1.05) cents</u>

*Notes:*

## **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 dated 8th December, 2000 issued by the Company.

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		Nine months ended	
	31st December,		31st December,	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
An analysis of turnover is as follow:				
Music production and distribution				
– sale of albums	18,824	22,810	49,264	54,198
– licence income	3,404	2,440	5,171	8,763
	<u>22,228</u>	<u>25,250</u>	<u>54,435</u>	<u>62,961</u>
Film and television programs production and distribution	6,426	—	14,884	—
Artiste management fee income	4,338	4,140	12,853	13,108
Event production				
– gross revenue from self-organised events	31,555	2,578	36,275	6,682
– share of net income from jointly organised events	12	336	196	336
	<u>31,567</u>	<u>2,914</u>	<u>36,471</u>	<u>7,018</u>
	<u>64,559</u>	<u>32,304</u>	<u>118,643</u>	<u>83,087</u>

## 3. Taxation

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

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



#### 4. (Loss)/earnings per share

The calculation of basic loss per share for the Three-Month Period and the Nine-Month Period is based on the unaudited consolidated loss attributable to shareholders of approximately HK\$2,079,000 and HK\$12,418,000 respectively (*the corresponding periods in 2000: profit/(loss) of approximately HK\$1,548,000 and HK\$(1,534,000) respectively*) and on weighted average number of 260,000,000 and 252,654,545 ordinary shares (*2000: 157,964,976 and 145,591,111 ordinary shares*) outstanding.

No amount for diluted loss per share is disclosed for the Three-Month Period as the Company has no dilutive potential ordinary shares for the period.

No amount for diluted loss per share has been presented for the Nine-Month 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 earnings/(loss) per share was disclosed for the corresponding periods in 2000 as the exercise of the share options outstanding would have no dilutive effect.

#### 5. Movement of reserves

Analyses of the movement of reserves are shown as follow:

##### (a) Accumulated losses

	Three months ended		Nine months ended	
	31st December,		31st December,	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at the beginning of the period	(150,705)	(152,136)	(140,366)	(149,054)
(Loss)/Profit for the period	(2,079)	1,548	(12,418)	(1,534)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Balance at the end of the period	<u>(152,784)</u>	<u>(150,588)</u>	<u>(152,784)</u>	<u>(150,588)</u>

**(b) Other reserves**

	Share premium HK\$'000	Contributed surplus HK\$'000	Special reserve HK\$'000	Total HK\$'000
<b>Balance at 1st April, 2000</b>	—	—	—	—
Waiver of advances from Questrel as part of the Group Reorganisation	—	—	75,000	75,000
<b>Balance at 30th June, 2000 and 30th September, 2000</b>	—	—	75,000	75,000
Surplus arising on the Group Reorganisation	—	91,163	—	91,163
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	(14,379)	—	—	(14,379)
<b>Balance at 31st December, 2000</b>	87,047	91,063	75,000	253,110
Expenses incurred in connection with the issue of new shares	(270)	—	—	(270)
<b>Balance at 31st March, 2001 and 30th June, 2001</b>	86,777	91,063	75,000	252,840
Premium arising on issue of new shares	19,400	—	—	19,400
Expenses incurred in connection with the issue of new shares	(563)	—	—	(563)
<b>Balance at 30th September, 2001 and 31st December, 2001</b>	<u>105,614</u>	<u>91,063</u>	<u>75,000</u>	<u>271,677</u>

## INTERIM DIVIDEND

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

## DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN SECURITIES

As at 31st December, 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 ("Ms. Semon Luk")	Nil	191,904,000( <i>Note</i> )	Nil	Nil	191,904,000
Cheng Yiu Keung	200,000	Nil	Nil	Nil	200,000

*Note: Questrel and Surplus Way Profits Limited ("Surplus Way") are the respective owners of 144,000,000 shares and 47,904,000 shares. They are companies 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 191,904,000 shares held by Questrel and Surplus Way.*

## Associated Corporation

<b>Name of Associated Corporation</b>	<b>Nature of Interest</b>	<b>Type and number of securities</b>
Emperor International Holdings Limited <sup>(1)</sup>	Personal and Family	573,502,770 ordinary shares of HK\$1.00 each
Global Food Culture Group Limited <sup>(2)</sup>	Family	770,806,500 ordinary shares of HK\$0.10 each

### *Notes:*

- (1) Ms. Semon Luk is the owner of 660,473 shares. The remaining 572,842,297 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 573,502,770 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 770,806,500 shares in Global Food Culture Group Limited.

Save as disclosed above, as at 31st December, 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**

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 the 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 31st December, 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 31st December, 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>
Surplus Way	47,904,000	18.42%
Questrel	144,000,000	55.38%
Mr. Albert Yeung <sup>(1)</sup>	191,904,000	73.81%
Ms. Semon Luk <sup>(2)</sup>	191,904,000	73.81%

*Notes:*

- (1) Questrel and Surplus Way are the respective owners of 144,000,000 shares and 47,904,000 shares. They are companies controlled by Mr. Albert Yeung. Accordingly, Mr. Albert Yeung was deemed to be interested in the 191,904,000 shares held by Questrel and Surplus Way.
- (2) Questrel and Surplus Way are the respective owners of 144,000,000 shares and 47,904,000 shares. They are companies controlled by Mr. Albert Yeung, spouse of Ms. Semon Luk. By virtue of the above interest of Mr. Albert Yeung, Ms. Semon Luk was also deemed to be interested in the above 191,904,000 shares held by Questrel and Surplus Way.

## MANAGEMENT SHAREHOLDERS

So far as the Directors are aware, as at 31st December, 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>
Surplus Way	47,904,000	18.42%
Questrel	144,000,000	55.38%
Mr. Albert Yeung <sup>(1)</sup>	191,904,000	73.81%
Ms. Semon Luk <sup>(2)</sup>	191,904,000	73.81%

### *Notes:*

- (1) Questrel and Surplus Way are the respective owners of 144,000,000 shares and 47,904,000 shares. They are companies controlled by Mr. Albert Yeung. Accordingly, Mr. Albert Yeung was deemed to be interested in the 191,904,000 shares held by Questrel and Surplus Way.
- (2) Questrel and Surplus Way are the respective owners of 144,000,000 shares and 47,904,000 shares. They are companies controlled by Mr. Albert Yeung, spouse of Ms. Semon Luk. By virtue of the above interest of Mr. Albert Yeung, Ms. Semon Luk was also deemed to be interested in the above 191,904,000 shares held by Questrel and Surplus Way.

## SPONSORS' INTERESTS

As updated and notified by the Company's sponsors, BNP Paribas Peregrine Capital Limited (the "Sponsor"), as at 31st December, 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”) the business of which involves 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 causes 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 31st December, 2001.

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

Hong Kong, 8th February, 2002