



# EEG

EMPEROR ENTERTAINMENT GROUP LIMITED  
英皇娛樂集團有限公司  
(Incorporated in Bermuda with limited liability)

First Quarterly Report 2002



**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 ended 30th June, 2002 (“Quarterly Period”), the Company and its subsidiaries (collectively referred to as the “Group”) recorded a loss of approximately HK\$1.1 million, compared with a loss of approximately HK\$1.8 million for the last corresponding period. The turnover of the Group increased by 1.8% to approximately HK\$30.5 million as compared with HK\$30.0 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\$22.9 million, representing an increase of about 14.8% from that of the last corresponding period. The increase was largely due to the licensing of audio-visual products.

During the Quarterly Period, the Group entered into a licence agreement and an exclusive sub-publishing agreement with a reputable record company, which managed over 16 artistes and had a collection of over 7,000 compositions in Taiwan, for the licensing and publishing of records and musical works. The management expected this new alliance to further strengthen the repertoire and enrich the album release of the Group.

With a view to further penetrate the record market and cater for the tastes of a wider spectrum of audience, the Group set up a separate entertainment operation under the label “Music Icon” in June 2002. This new operation was run by an independent management team in a separate office. The management expected this operation to create an opportunity for the Group to branch out from the local pop scene and sustain its leading position in the music industry.

#### **Film and Television Programme Production and Distribution**

Turnover from film and television programme production and distribution contributed approximately HK\$2.9 million to the Group during the Quarterly Period. A new film was released in the Quarterly Period. There were another six films and one television programme in various stages of production. Result is expected to improve when the operation operates to capacity upon further release of new films.

## **Artiste Management**

The artiste management fee income of the Group during the Quarterly Period decreased by 11.6% to approximately HK\$4.6 million.

The Group had signed up four green but promising artistes during the Quarterly Period. As at 30th June, 2002, there were 29 artistes under the Group (including four contracted artistes from Emperor Movie Holdings Limited and its subsidiaries), as compared with 22 artistes as at the end of the last corresponding period. The Group would continue to recruit promising artistes to enrich its talent bank and enlarge its income stream.

## **Event Production**

The Group had co-organised a concert with an overseas third party during the Quarterly Period, and a slight profit was recorded. Another concert will be organised in September 2002 and the management expected that it would bring satisfactory contribution to the Group.

## **FINANCIAL RESOURCES**

The Group currently funds its operation and capital expenditure through cash from operation, secured bank loan and unsecured loan from Surplus Way Profits Limited ("Surplus Way"), the substantial shareholder of the Company.

As at 30th June, 2002, the secured bank loan was approximately HK\$186.3 million, which was denominated in U.S. dollars. The bank loan facility obtained was for the principal purpose of financing the production of a film. Up to the date of this report, total amount of the bank loan facility available to the Group is approximately HK\$245.7 million. As security, the Group has assigned to the bank the Group's right, title and interest of every kind and nature in that film and also the Group's right, title and interest in and to the distribution agreements and the proceeds of each of them relating to that film. As at 30th June, 2002, the carrying amount of the film was approximately HK\$295.0 million. The bank loan bears interest at prevailing market rates and is repayable from the proceeds to be received from the distribution agreements but will in any event be due and payable on 31st August 2003. The film is now at the stage of post-production. The management expected the film to be released in the third quarter of the year 2003.

As at 30th June, 2002, the unsecured loan from Surplus Way was approximately HK\$62.1 million, which was denominated in Hong Kong dollars, interest bearing at Hong Kong prime rate and has 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") expected the Group to have sufficient working capital for its operation.

## PROSPECTS

The Group has successfully emerged as a leading entertainment and artiste management group in Hong Kong and the Greater China region. Its comprehensive service mix created a synergy effect and gave it an edge in the highly competitive entertainment industry.

The Group has won the reputation of bringing up talented artistes and grooming them for success. The 2002 International Chinese New Talent Singing Championship was scheduled to be held in August 2002 and the management expected the event to provide the Group with an opportunity to source and recruit talented artistes. The management would continue to build up its strength in the industry and look to turn the Group's business to profitability.

## 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 2001 as follows:

		<b>Three months ended</b>	
		<b>30th June,</b>	
		<b>2002</b>	<b>2001</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	30,509	29,976
Other revenue		2,574	1,957
Cost of music production and distribution		(15,013)	(16,860)
Cost of film and television programme production and distribution		(4,185)	—
Cost of self-organised event		—	(5,539)
Distribution costs		(1,811)	(1,149)
Administrative expenses		(12,416)	(10,165)
		<hr/>	<hr/>
Loss from operations		(342)	(1,780)
Finance costs		(788)	(13)
Share of results of associates		—	—
		<hr/>	<hr/>
Loss before taxation		(1,130)	(1,793)
Taxation	3	—	—
		<hr/>	<hr/>
Loss attributable to shareholders		<u>(1,130)</u>	<u>(1,793)</u>
		<hr/>	<hr/>
Loss per share – basic	4	<u>(0.43) cent</u>	<u>(0.75) cent</u>

## 1. General and basis of preparation of financial statements

The Company is incorporated as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda (as amended) on 17th October, 2000. Its shares are listed on GEM of the Stock Exchange. The Company's ultimate holding company is Surplus Way, a company which is incorporated in the British Virgin Islands.

The Company is an investment holding company. The principal activities of its principal subsidiaries are engaged in trading and production of audio-visual products, licensing of musical works, film and television programme production, distribution and licensing, provision of management services to artistes and concert management and organisation.

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 and are consistent with those followed in the Group's annual financial statements for the year ended 31st March, 2002.

## 2. Turnover

	<b>Three months ended 30th June,</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
An analysis of the Group's turnover is as follows:		
Music production and distribution		
– sale of albums	13,792	19,003
– licence income	9,128	965
	<u>22,920</u>	<u>19,968</u>
Production and distribution of films and television programmes and licensing of the corresponding distribution rights	<u>2,938</u>	<u>—</u>
Artiste management fee income	<u>4,634</u>	<u>5,244</u>
Event production		
– gross revenue from self-organised event	—	4,720
– share of net income from jointly organised event	17	44
	<u>17</u>	<u>4,764</u>
	<u>30,509</u>	<u>29,976</u>

### **3. Taxation**

No provision for Hong Kong Profits Tax has been made for the Quarterly Period as the estimated assessable profits were wholly absorbed by tax losses brought forward.

No provision for Hong Kong Profits Tax was made for the corresponding period in 2001 as the Group had no assessable profits during the period.

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 2001.

The Group did not have any significant deferred taxation in respect of the Quarterly Period and the corresponding period in 2001.

### **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\$1,130,000 (2001: HK\$1,793,000) and on 260,000,000 (2001: 240,000,000) ordinary shares in issue during the period.

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

No amount for diluted loss per share was presented for the corresponding period in 2001 as the exercise price of share options was higher than the average market price of the Company's shares during the period.

## 5. Movement of reserves

Analyses of movements in the reserves are shown as follow:

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 1st April, 2001	86,777	91,063	75,000	(140,366)	112,474
Net loss for the period	—	—	—	(1,793)	(1,793)
Balance at 30th June, 2001	86,777	91,063	75,000	(142,159)	110,681
Premium arising on issue of new shares	19,400	—	—	—	19,400
Expenses incurred in connection with the issue of new shares	(563)	—	—	—	(563)
Net loss for the period	—	—	—	(25,605)	(25,605)
Balance at 31st March, 2002	105,614	91,063	75,000	(167,764)	103,913
Net loss for the period	—	—	—	(1,130)	(1,130)
Balance at 30th June, 2002	<u>105,614</u>	<u>91,063</u>	<u>75,000</u>	<u>(168,894)</u>	<u>102,783</u>

## INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the Quarterly Period (2001: Nil).

## DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN SECURITIES

As at 30th June, 2002, 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	192,182,000 (Note)	Nil	Nil	192,182,000

*Note: The shares are registered in the name of and beneficially owned by Surplus Way, a company controlled by Mr. Yeung Sau Shing, Albert ("Mr. Albert Yeung"), spouse of Ms. Semon Luk. The entire issued share capital of Surplus Way was held by Jumbo Wealth Limited ("Jumbo Wealth") on trust for The A & A Unit Trust, a unit trust under the discretionary trust of Mr. Albert Yeung. Accordingly, Ms. Semon Luk was deemed to be interested in the 192,182,000 shares held by Surplus Way.*

### Associated Corporation

Name of associated corporation	Nature of interest	Type and number of securities
Emperor International Holdings Limited ("Emperor International") (Note 1)	Family	643,187,297 ordinary shares of HK\$1.00 each
	Personal	660,473 ordinary shares of HK\$1.00 each
Global Food Culture Group Limited ("Global Food") (Note 2)	Family	38,540,325 ordinary shares of HK\$0.01 each

Notes:

- Ms. Semon Luk is the owner of 660,473 shares. The 643,187,297 shares are registered in the name of and beneficially owned by Charron Holdings Limited ("Charron"), a company controlled by Mr. Albert Yeung, spouse of Ms. Semon Luk. The entire issued share capital of Charron was held by Jumbo Wealth on trust for The A & A Unit Trust, a unit trust under the discretionary trust of Mr. Albert Yeung. Accordingly, Ms. Semon Luk was deemed to be interested in the 643,847,770 shares in Emperor International.
- These shares were registered in the name of and beneficially owned by Forever Rich Profits Limited ("Forever Rich"), a company controlled by Mr. Albert Yeung, spouse of Ms. Semon Luk. The entire issued share capital of Forever Rich was held by Jumbo Wealth on trust for The A & A Unit Trust, a unit trust under the discretionary trust of Mr. Albert Yeung. Accordingly, Ms. Semon Luk was deemed to be interested in the 38,540,325 shares in Global Food. Subsequently, Forever Rich disposed of the shares on 3rd July, 2002 and Ms. Semon Luk ceased to have any deemed interest in Global Food.

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

Save as disclosed above, as at 30th June, 2002, none of the directors or chief executives or their respective associates of the Company had 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 GEM of the Stock Exchange pursuant to the minimum standards of dealing by directors as referred to in Rule 5.40 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules").

## **DIRECTORS' RIGHT TO ACQUIRE SHARES**

On 30th November, 2000, the Company adopted a share option scheme (the "Employee Share Option Scheme") which will expire on 30th November, 2010 for the primary purpose of providing incentives to the participants. Under the Employee Share Option Scheme, the Company may grant options to full-time employees, including any executive 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 GEM of the Stock Exchange on the date of grant of the option, the average of the closing price of the shares on 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. An offer for the grant of options must be accepted within 21 days from the date of the offer and a nominal consideration of HK\$1 is payable on acceptance of the grant of options.

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) 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 options subject to the provisions for early termination thereof.

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

As at 30th June, 2002, the Company did not grant 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 30th June, 2002, 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:

<b>Name</b>	<b>Number of shares held</b>	<b>Percentage holding</b>
Surplus Way	192,182,000	73.92%
Jumbo Wealth	192,182,000	73.92%
Mr. Albert Yeung	192,182,000 (Note)	73.92%
Ms. Semon Luk	192,182,000 (Note)	73.92%

*Note: The shares are registered in the name of and beneficially owned by Surplus Way, a company controlled by Mr. Albert Yeung. The entire issued share capital of Surplus Way was held by Jumbo Wealth on trust for The A & A Unit Trust, a unit trust under the discretionary trust of Mr. Albert Yeung. Accordingly, Mr. Albert Yeung, spouse of Ms. Semon Luk, was deemed to be interested in the 192,182,000 shares held by Surplus Way. By virtue of the above interests of Mr. Albert Yeung, Ms. Semon Luk was also deemed to be interested in the above 192,182,000 shares held by Surplus Way.*

## **MANAGEMENT SHAREHOLDERS**

So far as the directors are aware, as at 30th June, 2002, 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:

<b>Name</b>	<b>Number of shares held</b>	<b>Percentage holding</b>
Surplus Way	192,182,000	73.92%
Jumbo Wealth	192,182,000	73.92%
Mr. Albert Yeung	192,182,000 (Note)	73.92%
Ms. Semon Luk	192,182,000 (Note)	73.92%

*Note: The shares are registered in the name of and beneficially owned by Surplus Way, a company controlled by Mr. Albert Yeung. The entire issued share capital of Surplus Way was held by Jumbo Wealth on trust for The A & A Unit Trust, a unit trust under the discretionary trust of Mr. Albert Yeung. Accordingly, Mr. Albert Yeung, spouse of Ms. Semon Luk, was deemed to be interested in the 192,182,000 shares held by Surplus Way. By virtue of the above interests of Mr. Albert Yeung, Ms. Semon Luk was also deemed to be interested in the above 192,182,000 shares held by Surplus Way.*

## **SPONSOR'S INTERESTS**

Neither the Company's sponsor, BNP Paribas Peregrine Capital Limited ("BNP Paribas Peregrine"), 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 30th June, 2002.

Pursuant to the agreement dated 7th December, 2000 entered into between the Company and BNP Paribas Peregrine, BNP Paribas Peregrine 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.

## **COMPETING INTERESTS**

Dr. Chan Kong Sang, Jackie ("Dr. Jackie Chan"), a non-executive director of the Company, 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 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 Sing Pao Media Group Limited ("Sing Pao Media"). Star East is a listed company engaged in entertainment-related businesses, including the franchising and operation of "Planet Hollywood" and "Star East" theme restaurants in Asia Pacific, strategic investment in Sing Pao Media and M Channel Corporation Limited, production of movies, television drama series, documentary and infotainment programmes and property investment and development. In addition, it has developed operations in market communications, event marketing, talent performance and music production. Sing Pao Media is a company listed on GEM and principally engaged in the provision of multimedia entertainment and life style information mainly through its vertically integrated entertainment portals, with emphasis on synergy between traditional and virtual media business. Accordingly, the business of Star East, Sing Pao Media and the Movies Companies may constitute competition with the business of the Group. The directors of the Company consider that since Dr. Jackie Chan is a non-executive director of the Company and will not exert management control over the Group, the business of Star East, Sing Pao Media and the Movies Companies will not materially affect the Group's business.

Save as disclosed above, the directors believe that none of the current 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**

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.

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

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

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

Hong Kong, 12th August, 2002