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

Third Quarterly Report 2002



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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 (“Quarterly Period”) and nine months (“Nine-Month Period”) ended 31st December, 2002, the Company and its subsidiaries (collectively referred to as the “Group”) recorded a loss of approximately HK\$5.3 million and HK\$16.7 million respectively, as compared with a loss of approximately HK\$2.1 million and HK\$12.4 million for the last corresponding periods. Turnover of the Group on the whole increased by 2.3% to approximately HK\$121.4 million during the Nine-Month Period, while turnover for the Quarterly Period decreased by 29.5% to approximately HK\$45.5 million, as compared with the previous corresponding periods. The drop in turnover for the Quarterly Period and the additional loss incurred for the periods under review were mainly due to the decrease in revenue arising from the event production sector.

OPERATION REVIEW

Music Production and Distribution

During the Nine-Month Period, the Group’s performance in this business sector had been outstanding. The Group and its artistes won 101 awards including IFPI The Best Sales Cantonese Release, 2002 Syndicated Annual Music Awards – Media Award, 2002 Syndicated Annual Music Awards – Outstanding Performance Award (Gold), 2002 Syndicated Annual Music Awards – Song of The Year, RTHK 25th Top Ten Chinese Gold Song Award – Honorary Award, CR2 903 Ultimate Song Chart Awards Presentation 2002 – Super Charged Award, TVB JSG Best 10 Awards Presentation 2002 – Gold Prize and Metro Radio’s Hit Awards Presentation 2002 – The Best Male and Female Singers, as compared with 73 awards for the previous corresponding period.

During the Nine-Month Period, the Group released 50 albums, out of which 33 albums were for the Group’s own artistes and 17 albums belonged to international labels, as compared with 44 albums of the last corresponding period. Income from sale of albums increased by approximately HK\$5.0 million while income from licensing of audio-visual products increased by more than HK\$15.0 million. This led to an upsurge in the turnover for the Nine-Month Period by 37.8% to approximately HK\$75.0 million as compared with the last corresponding period.

Film and Television Programme Production and Distribution

During the period under review, turnover of this business sector contributed approximately HK\$19.1 million to the Group and a slight profit was recorded. The Group released five films during the Nine-Month Period, at the end of which there were another three films and one television programme in various stages of production.

OPERATION REVIEW *(Continued)*

Artiste Management

With the increased popularity of the Group's artistes, the artiste management fee income of the Group during the Nine-Month Period increased by 29.3% to approximately HK\$16.6 million.

During the Nine-Month Period, the Group signed up two established artistes and eight green but promising artistes. This further enriched the Group's talent bank and enlarged its income stream. As at 31st December, 2002, there were 32 artistes under the Group, as compared with 29 artistes as at the end of the last corresponding period.

Event Production

During the Nine-Month Period, the Group solely organised two concerts which were well received and generated a gross profit of approximately HK\$1.7 million to the Group. The Group also co-organised three concerts with overseas third parties, from which a small net income was recorded. Contribution arising from this business sector during the Nine-Month Period was less than that of the previous corresponding period during which six concerts were organised by the Group. The management expected this business sector to make greater contribution in the coming period.

Shortly after the Nine-Month Period, the Group jointly organised a concert with a third party in January 2003. Another self-organised concert would also be held in February 2003.

PROSPECTS

During the Nine-Month Period, the performance of the repertoire business of the Group had been outstanding as evidenced by the numerous awards won by the Group and the remarkable sales and licensing revenue generated. With such solid foundation, the management anticipated continued improvement not only in music production and distribution, but also in the other related business sectors, such as artiste management and event production. As the Group gathered more experience in the film production sector, the management also looked forward to receiving greater contribution from this sector.

RESULTS

The board of directors (the “Board”) announces the unaudited consolidated results of the Group for the Quarterly Period and the Nine-Month Period together with the comparative unaudited figures for the corresponding periods in 2001 as follows:

	Notes	Three months ended 31st December,		Nine months ended 31st December,	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	2	45,518	64,559	121,369	118,643
Other revenue		2,141	1,999	5,850	4,945
Cost of music production and distribution		(16,089)	(16,466)	(49,585)	(41,171)
Cost of film and television programme production and distribution		(9,821)	(5,688)	(18,565)	(12,724)
Cost of self-organised events		(1,688)	(24,424)	(8,813)	(29,434)
Distribution costs		(10,371)	(8,741)	(22,457)	(17,828)
Administrative expenses		(13,503)	(12,695)	(41,236)	(33,910)
		<hr/>	<hr/>	<hr/>	<hr/>
Loss from operations		(3,813)	(1,456)	(13,437)	(11,479)
Finance costs		(1,481)	(750)	(3,232)	(1,165)
Share of results of associates		—	—	—	—
		<hr/>	<hr/>	<hr/>	<hr/>
Loss before taxation		(5,294)	(2,206)	(16,669)	(12,644)
Taxation	3	—	—	—	—
		<hr/>	<hr/>	<hr/>	<hr/>
Loss before minority interest		(5,294)	(2,206)	(16,669)	(12,644)
Minority interest		—	127	—	226
		<hr/>	<hr/>	<hr/>	<hr/>
Net loss for the period		<u>(5,294)</u>	<u>(2,079)</u>	<u>(16,669)</u>	<u>(12,418)</u>
		<hr/>	<hr/>	<hr/>	<hr/>
Loss per share	4				
– basic		<u>(2.04) cents</u>	<u>(0.80) cent</u>	<u>(6.41) cents</u>	<u>(4.91) cents</u>
		<hr/>	<hr/>	<hr/>	<hr/>
– diluted		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>(4.91) cents</u>
		<hr/>	<hr/>	<hr/>	<hr/>

Notes:

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 Profits Limited ("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 ("SSAPs") 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, except the Group has adopted a number of new and revised SSAPs which became effective on 1st January, 2002. The adoption of these SSAPs has no material effect on the results for the current or prior accounting period. Accordingly, no prior period adjustment has been required.

2. Turnover

	Three months ended		Nine months ended	
	31st December,		31st December,	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
An analysis of the Group's turnover is as follows:				
Music production and distribution				
– sale of albums	23,112	18,824	54,249	49,264
– licence income	4,595	3,404	20,766	5,171
	<u>27,707</u>	<u>22,228</u>	<u>75,015</u>	<u>54,435</u>
Production and distribution of films and television programmes and licensing of the corresponding distribution rights	<u>10,848</u>	<u>6,426</u>	<u>19,131</u>	<u>14,884</u>
Artiste management fee income	<u>5,439</u>	<u>4,338</u>	<u>16,618</u>	<u>12,853</u>
Event production				
– gross revenue from self-organised events	1,495	31,555	10,558	36,275
– share of net income from jointly organised events	29	12	47	196
	<u>1,524</u>	<u>31,567</u>	<u>10,605</u>	<u>36,471</u>
	<u>45,518</u>	<u>64,559</u>	<u>121,369</u>	<u>118,643</u>

3. Taxation

No provision for Hong Kong Profits Tax has been made for the Nine-Month 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 Nine-Month Period and the corresponding period in 2001.

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

4. Loss per share

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

Earnings:	Three months ended		Nine months ended	
	31st December, 2002	2001	31st December, 2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net loss for the period and loss for the purpose of basic and diluted loss per share	<u>(5,294)</u>	<u>(2,079)</u>	<u>(16,669)</u>	<u>(12,418)</u>
Number of shares:				
Weighted average number of shares for the purpose of basic loss per share	<u>260,000,000</u>	<u>260,000,000</u>	<u>260,000,000</u>	252,654,545
Effect of dilutive potential shares: Pre-IPO share options				<u>—</u>
Weighted average number of shares for the purpose of diluted loss per share				<u>252,654,545</u>

5. Movement of reserves

Analyses of the movement of reserves are shown as follows:

(a) Accumulated losses

	Three months ended		Nine months ended	
	31st December, 2002	2001	31st December, 2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at the beginning of the period	(179,139)	(150,705)	(167,764)	(140,366)
Net loss for the period	(5,294)	(2,079)	(16,669)	(12,418)
Balance at the end of the period	<u>(184,433)</u>	<u>(152,784)</u>	<u>(184,433)</u>	<u>(152,784)</u>

(b) Other reserves

	Share premium HK\$'000	Contributed surplus HK\$'000	Special reserve HK\$'000	Translation reserve HK\$'000	Total HK\$'000
Balance at 1st April, 2001 and 30th June, 2001	86,777	91,063	75,000	—	252,840
Premium arising on issue of new shares	19,400	—	—	—	19,400
Expenses incurred in connection with issue of new shares	(563)	—	—	—	(563)
Balance at 30th September, 2001, 31st December, 2001, 31st March, 2002 and 30th June, 2002	105,614	91,063	75,000	—	271,677
Exchange difference arising on translation of financial statements of a foreign subsidiary	—	—	—	(213)	(213)
Balance at 30th September, 2002	105,614	91,063	75,000	(213)	271,464
Exchange difference arising on translation of financial statements of a foreign subsidiary	—	—	—	(22)	(22)
Balance at 31st December, 2002	<u>105,614</u>	<u>91,063</u>	<u>75,000</u>	<u>(235)</u>	<u>271,442</u>

6. Comparative figures

Certain comparative figures have been reclassified to conform to current period's presentation.

INTERIM DIVIDEND

No dividends were paid during the Nine-Month Period. The Board does not recommend the payment of an interim dividend for the Nine-Month Period (2001: Nil).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31st December, 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	Number of shares held				Total
	Personal interests	Family interests	Corporate interests	Other interests	
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.

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

Associated Corporation

Name of associated corporation	Nature of interests	Type and number of securities
Emperor International Holdings Limited ("Emperor International") (Note)	Family	644,807,297 ordinary shares of HK\$1.00 each
	Personal	660,473 ordinary shares of HK\$1.00 each

Note: Ms. Semon Luk is the owner of 660,473 shares. The 644,807,297 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 645,467,770 shares in Emperor International.

Save as disclosed above, as at 31st December, 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").

SHARE OPTIONS AND 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.

SHARE OPTIONS AND DIRECTORS' RIGHT TO ACQUIRE SHARES *(Continued)*

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 31st December, 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 31st December, 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:

Name	Number of shares held	Percentage holding
Surplus Way	192,182,000	73.92%
Jumbo Wealth	192,182,000	73.92%
Mr. Albert Yeung	192,182,000 <i>(Note)</i>	73.92%
Ms. Semon Luk	192,182,000 <i>(Note)</i>	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 31st December, 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:

Name	Number of shares held	Percentage holding
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 interest 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 December, 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 a non-executive director of Sing Pao Media Group Limited (“Sing Pao Media”). Sing Pao Media is a company listed on GEM and principally engaged in the publication of newspaper and magazines, and with emphasis on synergy between traditional and virtual media business. Accordingly, the business of 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 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 members of the audit committee.

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

During the Nine-Month 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 February, 2003