



EEG Annual Report 年報 2003

Incorporated in Bermuda with limited liability
(於百慕達註冊成立之有限公司)

EEG

Emperor Entertainment Group
英皇娛樂集團

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 arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.



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Corporate Information

Directors

Luk Siu Man, Semon* (*Chairperson*)

Ng Sui Wan alias Ng Yu
(*Chief Executive Officer*)

Wong Chi Fai

Fan Man Seung, Vanessa

Chan Kong Sang, Jackie*

So Shu Fai*

Wong Ching Yue**

Tso Hon Sai, Bosco**

* *Non-executive Directors*

** *Independent Non-executive Directors*

Company Secretary

Mok Fung Lin, Ivy, LL.B (Hons) P. C. LL, MBA

Compliance Officer

Wong Chi Fai, FCCA, AHKSA

Qualified Accountant

Lau Wei Fan, CPA (Aust), AHKSA

Authorised Representatives

Fan Man Seung, Vanessa

Mok Fung Lin, Ivy

Audit Committee

Wong Ching Yue

Tso Hon Sai, Bosco

Sponsor

BNP Paribas Peregrine Capital Limited

Legal Advisers

As to Hong Kong Law:

Fairbairn Cately Low & Kong

As to Bermuda Law:

Conyers Dill & Pearman

Bankers

The Hongkong and Shanghai Banking
Corporation Limited

Dexia Banque Internationale à
Luxembourg SA

Allied Irish Banks plc

Auditors

Deloitte Touche Tohmatsu

Registered Office

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

Principal Office

28th Floor

Emperor Group Centre

288 Hennessy Road

Wanchai

Hong Kong

Registrars (*in Bermuda*)

Butterfield Fund Services (Bermuda) Limited

Rosebank Centre

11 Bermudiana Road

Pembroke

Bermuda

Registrars (*in Hong Kong*)

Secretaries Limited

Ground Floor

Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

Website

<http://www.eegmusic.com>

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting of Emperor Entertainment Group Limited (the "Company") will be held at 25th Floor, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong on 27th August, 2003 at 10:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and auditors for the year ended 31st March, 2003.
2. To re-elect retiring directors and to fix directors' remuneration and to grant power to the board of directors to appoint additional director(s).
3. To re-appoint auditors and to authorise the board of directors to fix their remuneration.
4. As special business, to consider and, if thought fit, pass the following resolutions as ordinary resolutions:

(A) "THAT

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

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

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

Notice of Annual General Meeting

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

(B) “THAT

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

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

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

Notice of Annual General Meeting

- (C) "THAT conditional upon resolution no. 4(B) above being passed, the aggregate nominal amount of the number of shares in the capital of the Company which are repurchased by the Company under the authority granted to the directors as mentioned in resolution no. 4(B) above shall be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to resolution no. 4(A) above."

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

Hong Kong, 25th June, 2003

Registered Office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

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

Notes:

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

Biographies of Directors and Senior Executives

Luk Siu Man, Semon *Non-executive Director and Chairperson*

Aged 47, graduated from the University of Toronto with a bachelor degree in Commerce. She worked in the banking industry for almost 10 years. She is also the Chairperson of Emperor International Holdings Limited and Emperor (China Concept) Investments Limited, the shares of both of which are listed on the Main Board of the Stock Exchange. She joined the Group in November 2000.

Ng Sui Wan alias Ng Yu *Executive Director and Chief Executive Officer*

Aged 53, joined the Group in December 2001. He is responsible for the corporate and business strategies, and operations of the Group. Prior to this date, he worked for Celestial Pictures Limited, an associated company of Television Broadcasts Limited (“TVB”), as the General Manager, in charge of motion film production. In 1996, he worked for Capital Artists Limited for 4 years holding the position as the General Manager. During that period, he had been involved in record production, publishing and distribution and talent management where he discovered and unfolded the talent of Eason Chan, Miriam Yeung and Edmond Leung. Before, he was the Production Controller of TVB for 20 years, commanding television programme production and creative teams.

Wong Chi Fai *Executive Director and Compliance Officer*

Aged 47, is responsible for the overall corporate and business planning of the Group. He has over 20 years’ experience in finance and management spanning a diverse range of businesses from manufacturing to property investment and development. He is a member of the Hong Kong Society of Accountants and a fellow of the Association of Certified Accountants. He is also the joint managing director of Emperor International Holdings Limited and a director of Emperor (China Concept) Investments Limited, the shares of both of which are listed on the Main Board of the Stock Exchange. He joined the Group in January 1994.

Fan Man Seung, Vanessa *Executive Director*

Aged 40, is a solicitor qualified in Hong Kong and a member of the Hong Kong Society of Accountants. She also holds a master degree in Business Administration. She is responsible for the overall corporate and business planning of the Group. She is also the joint managing director of Emperor International Holdings Limited and a director of Emperor (China Concept) Investments Limited, the shares of both of which are listed on the Main Board of the Stock Exchange. She joined the Group in January 1994.

Biographies of Directors and Senior Executives

Chan Kong Sang, Jackie, MBE, SBS *Non-executive Director*

Aged 49, is an international renowned actor and entertainer. He has been awarded fellowship by The Hong Kong Academy for Performing Arts. He was chosen as one of the Ten Outstanding Young Persons of Hong Kong in 1986 and The Outstanding Young Persons of the World by Jaycees International in 1988. In 1992, the Taiwan Government honoured him as one of The Five Most Outstanding Young Chinese of the World. He was made a Member of the Most Excellent Order of the British Empire (MBE) in 1989 and was conferred the Honorary Doctorate of Social Science by the Hong Kong Baptist University in 1996. He was awarded the Silver Bauhinia Star by the Government of Hong Kong Special Administrative Region of the People's Republic of China in 1999. He is the chairman of Jade Dynasty Food Culture Group Limited, the shares of which are listed on the Main Board of the Stock Exchange. He joined the Group in November 2000.

So Shu Fai *Non-executive Director*

Aged 52, is a founding honorary director of The University of Hong Kong Foundation for Educational Development and Research. He is a committee member of the 10th National Committee of the Chinese People's Political Consultative Conference and an associate member of the Institute of Chartered Secretaries and Administrators. He holds a bachelor degree in Science from The University of Hong Kong and a doctoral degree of Management Studies. He joined the Group in July 2001.

Wong Ching Yue *Independent Non-executive Director*

Aged 54, is a senior counsel, barrister-at-law, practising in Hong Kong since 1975. He joined the Group in November 2000.

Tso Hon Sai, Bosco *Independent Non-executive Director*

Aged 38, is a solicitor practising in Hong Kong since 1990. He is a partner of Bosco Tso & Partners. He graduated from King's College London in the United Kingdom in 1987. He joined the Group in November 2000.

Mok Fung Lin, Ivy *Company Secretary*

Aged 38, is a solicitor qualified in Hong Kong and the United Kingdom, and holds a master degree in Business Administration. She is also an executive director of Emperor International Holdings Limited and Emperor (China Concept) Investments Limited, the shares of both of which are listed on the Main Board of the Stock Exchange.

Biographies of Directors and Senior Executives

Fok Man Hei, Mani

Aged 30, is a director of the artiste management division of the Group and is responsible for overseeing the operations of the artiste management division of the Group in all aspects including artistes' albums, film production, television commercials, concerts etc. and providing guidance to certain artistes on personal and career developments. She has 10 years of experience in the artiste management industry. Prior to joining the Group in 1993, she worked in the modeling and advertising industries. She possesses a detailed knowledge of and has a successful track record in the promotion of artistes like Nicholas Tse, Joey Yung and Twins in the industry.

Kan Chin Chin, Lisa

Aged 34, is the senior general manager of the records department under the MUSICPLUS label and is responsible for overseeing the domestic repertoire of the MUSICPLUS label of the Group. Prior to joining the Group in August 2000, she was the label chief of Warner Music HK Limited and deputy general manager of Universal Music Limited. She has over 12 years of experience in the area of sales, marketing and promotion of records and singing artistes.

Lam Wai Hon

Aged 35, is the general manager of the records department under the EEG label and is responsible for overseeing the domestic repertoire of the EEG label of the Group. Prior to joining the Group in September 1999, he worked for Warner Music HK Limited and EMI Hong Kong. He has 14 years of experience in promotion and marketing in the records industry.

Albert Lee

Aged 49, joined the Group as the Chief Executive Officer of Emperor Multimedia Group, the film and television programme production and distribution arm of the Group, in May 2003. He graduated from the University of Wales Institute of Science and Technology with a bachelor of science degree in Economics in 1975. Prior to joining the Group, he has over 20 years' experience in the film industry. He is currently a member of the Election Committee for the Performing Arts sub-sector and has rendered his service in various public bodies in the media, communication and film sector, including acting as director of Hong Kong Kowloon and New Territories Motion Picture Industry Association (MPIA) and honorary advisor to the Hong Kong International Film Festival.

Chairperson's Statement

For the financial year ended 31st March, 2003, the Company and its subsidiaries (collectively referred to as the "Group") recorded a loss attributable to shareholders of approximately HK\$15.9 million as compared with a loss of approximately HK\$27.4 million for the previous year. Turnover of the Group increased by 8% to approximately HK\$166.5 million as compared with approximately HK\$154.7 million for the previous year.

OPERATION REVIEW

Although a net loss was recorded for the current year, the overall performance of the Group had substantially improved with its net loss being reduced by 42% as compared with last year. Current year's loss was mainly attributable to the film and television programme production and distribution sector. Such loss had however been pared down as compared with the previous year with the release of more films during the year under review.

Music Production and Distribution

The performance of the music production and distribution business had been outstanding. Turnover and gross profit from this sector soared by 22% and 35% respectively as compared with that of last year. The improved results were mainly attributable to the lucrative income derived from licensing of audio-visual products.

To broaden the customer base of the Group, the Group had entered into a licence agreement and an exclusive sub-publishing agreement with a reputable record company in Taiwan, and was granted an exclusive right to license and publish its records and musical works in Hong Kong. The Group had also entered into several licence and distribution agreements with overseas third parties, enabling the Group to license and distribute its own records and musical works in Asia. 71 albums were released during the year, with 50 being from the Group's own artistes and the remaining being under international labels.

During the year, the number of awards won by the Group and its artistes amounted to over 100, including the IFPI the Best Sales Cantonese Release, the 2002 Four Electronic Media Syndicated Awards (Media Award), the 2002 Four Electronic Media Syndicated Awards (Outstanding Performance Awards), the 2002 Four Electronic Media Syndicated Awards (Best Song Award), the CR2 903 Ultimate Song Chart Awards 2002 (Super Charged Award), the Metro Radio's Hit Awards 2002 (The Best Male and Female Singers), the TVB JSG Best Ten Awards 2002 (Gold Prize) and the RTHK 25th Top Ten Chinese Gold Song Awards (Honorary Award). These honors helped to sustain the leading position of the Group in the music entertainment industry.

Chairperson's Statement

OPERATION REVIEW *(Continued)*

Film and Television Programme Production and Distribution

Turnover derived from film and television programme production and distribution increased by 62% as compared with last year. Although a loss continued to be recorded, there was overall improvement in the performance of this sector as the Group gained more experience and more films were released with a better budgetary control.

During the year under review, the Group released five films, namely, "Ichi the Killer", "Just One Look", "Demi-haunted", "New Blood" and "Buttman Japan" (VCD only) and one television programme. As at the end of the year, three other films including "The Twins Effect" and "The Medallion" were at the stage of post-production. "The Twins Effect" has been released as at the date of this report while "The Medallion" is expected to be released in the third quarter of 2003. The management expected the films to make positive contribution to the Group's results in the next financial year.

Artiste Management

This sector recorded steady and promising growth with the artiste management fee income increased by 32% as compared with last year. The Group had signed up two established artistes and nine green but talented artistes during the year to further enrich its talent bank and enlarge its income stream. As at the end of the year under review, there were 30 artistes under the Group as compared with 27 artistes as at the end of the previous year.

Event Production

During the year under review, three concerts were organised by the Group with two being self-organised and one being co-organised with a third party. Owing to the economic depression in Hong Kong, less concerts were organised as compared with last year, leading to a downturn in the turnover from this sector. Despite the reduced number of concerts, the sector continued to bring satisfactory positive contribution to the Group.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to fund its operation and capital expenditure through internally generated cash flow from operation, secured bank loan and unsecured loan from Surplus Way Profits Limited ("Surplus Way"), the substantial shareholder of the Company.

As at 31st March, 2003, the Group's current assets were approximately HK\$486.9 million, of which 73% was film rights, inventories and record masters, 16% was bank balances and cash held in hand, which were mainly denominated in U.S. dollars and Hong Kong dollars, and the remaining 11% was trade and other receivables and prepayments. The Group's current liabilities on the same date were approximately HK\$424.3 million, of which 30% was trade and other payables and accrued charges, 42% was bank borrowings and 28% was unsecured loan from Surplus Way.

Chairperson's Statement

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES *(Continued)*

As at the end of the year, the Group had one secured bank loan of approximately HK\$177.7 million, which was denominated in U.S. dollars. The bank loan was obtained for the purpose of financing the production of a film. As security, the Group had assigned to the bank the Group's right, title and interest of every kind and nature in the film and also the Group's right, title and interest in and to most of the distribution agreements and the proceeds of each of them relating to the film rights. The bank loan which is due and payable on 31st August, 2003 bears interest at prevailing market rates and is expected to be repayable from the proceeds to be received from the distribution agreements and from internal funding. The film is now at post-production stage. The management expected the film to be released in the third quarter of the year 2003.

As at 31st March, 2003, unsecured loan of approximately HK\$117.8 million was due to Surplus Way. The loan was denominated in Hong Kong dollars with interest at the Hong Kong prime rate and had no fixed repayment term.

Save as disclosed above, the Group had no other external borrowings as at 31st March, 2003. With the external borrowings and bank balances and cash held in hand mainly denominated in U.S. dollars and Hong Kong dollars, the management expected no significant exposure to foreign exchange rate fluctuation in the coming year.

Together with the cash flow generated by the operation of the Group in its ordinary course of business and its existing loan facility, the management expected the Group to have sufficient working capital for its operation.

As at 31st March, 2003, the Group had a gearing ratio (expressed as a percentage of total liabilities over total assets) of 83% compared with that of 74% in the preceding financial year. The increase in the gearing ratio was mainly due to the additional borrowings raised by the Group during the year to finance the production of a film, which was still at its investment stage at the end of the year under review. The management expected that return on the investment of this film in the future would improve the gearing ratio of the Group.

NUMBER AND REMUNERATION OF EMPLOYEES

As at 31st March, 2003, the Group had 94 employees and total staff costs for the year were approximately HK\$34.4 million. All employees are under the remuneration policy of fixed monthly salary with discretionary bonus. The Company also adopted a share option scheme for providing incentives to full-time employees of the Group. No options were granted or outstanding during the year.

Chairperson's Statement

PROSPECTS

Music sales are no longer sheer sales of music. The Group began to create more music-related lucrative products and services to broaden its income stream. The Group had participated in the digital content services offered by notable telecommunication companies for producing monophonic and polyphonic ringing tones, ring-back tone and connecting tone services, mobile wallpaper, screensaver and operator logo download, MMS content and other voice applications. All these new business opportunities helped to broaden the income stream and maximize free publicity exposure.

Targeted at the teenage group and fans club members, a trial-blazing retail shop, "EEG SHOWROOM", will be grand opened in the coming July 2003. This gallery-like retail shop will mainly sell EEG artistes' exclusive pictures and collectible souvenirs. The commercial motive for opening this outlet is to capture the attention and loyalty of youngsters to the EEG labels.

In the course of the past financial year, the talents under the Group's management have become teen icons, winning numerous music awards. With the Group's strong talent bank and solid repertoire, the extensive experience of its dedicated management team, and the synergy generated by its unique mix of entertainment businesses, the Group's future growth and development is promising.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objectives for the period from 1st April, 2002 to 30th September, 2002 as stated in the prospectus dated 8th December, 2000 (the "Prospectus") and the circular dated 20th July, 2001 (the "Circular")	Business objectives for the period from 1st October, 2002 to 31st March, 2003 as stated in the Prospectus and the Circular	Actual business progress for the year ended 31st March, 2003
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1. Strategic development/overseas expansion

- | | | |
|---|---|--|
| (i) Further expand the Group's Taiwan office to include licensing function. | N/A | The Group's Taiwan office has increased its manpower for further expansion. It is planning to recruit more Taiwan artistes for records production. |
| (ii) N/A | Expand the Group's Shanghai office to include licensing function. | The establishment of Shanghai office has been put on hold and the management is planning to set up a new office in Beijing instead. |

Chairperson's Statement

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS (Continued)

Business objectives for the period from 1st April, 2002 to 30th September, 2002 as stated in the prospectus dated 8th December, 2000 (the "Prospectus") and the circular dated 20th July, 2001 (the "Circular")

Business objectives for the period from 1st October, 2002 to 31st March, 2003 as stated in the Prospectus and the Circular

Actual business progress for the year ended 31st March, 2003

2. Music production and distribution

(i) Release not less than 18 albums for the Group's own artistes in Hong Kong.

Release not less than 20 albums for the Group's own artistes in Hong Kong.

Release of 50 albums for the Group's own artistes in Hong Kong.

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

Enter into licence agreement with not less than one international record company.

The Group had entered into a licence agreement and an exclusive sub-publishing agreement with a reputable record company in Taiwan, and was granted an exclusive right to license and publish its records and musical works in Hong Kong. The Group had also entered into four other licence and distribution agreements with overseas third parties, which enabled the Group to license and distribute its own records and musical works in Asia.

3. Artiste management in respect of music entertainment business

(i) Recruit not less than two new artistes in Hong Kong.

Recruit not less than two new artistes in Hong Kong and the People's Republic of China (the "PRC").

During the year under review, two established artistes and eight green but promising artistes were recruited in Hong Kong.

(ii) Recruit not less than two artistes in Asia including Taiwan and the PRC.

Recruit not less than two artistes in Asia.

The Group also signed up one talented artiste in Taiwan during the year. It takes time for the Group to source the remaining talented artistes as originally planned.

4. Event production

(i) Solely or jointly organise not less than three concerts in Hong Kong.

Solely or jointly organise not less than three concerts in Hong Kong.

Owing to the economic depression in Hong Kong, only three concerts were organised solely and jointly during the year with two self-organised and another being co-organised with a third party.

Chairperson's Statement

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS (Continued)

Business objectives for the period from 1st April, 2002 to 30th September, 2002 as stated in the prospectus dated 8th December, 2000 (the "Prospectus") and the circular dated 20th July, 2001 (the "Circular")

Business objectives for the period from 1st October, 2002 to 31st March, 2003 as stated in the Prospectus and the Circular

Actual business progress for the year ended 31st March, 2003

5. Film and television programme production and distribution in Hong Kong and overseas markets

(i) Film and television programme production and distribution in Hong Kong and overseas markets.

Film and television programme production and distribution in Hong Kong and overseas markets.

The Group released five films and one television programme during the year. Another three films were in the stage of post-production and expected to be released in the coming year.

6. Multimedia entertainment products production

(i) Multimedia entertainment products production.

Multimedia entertainment products production.

The Group had offered the digital content licensing ranging from visual, voice to musical contents and those new products were well received by the general public, especially the teens segment.

7. Artiste management in respect of movie entertainment business

(i) Artiste management in respect of movie entertainment business.

Artiste management in respect of movie entertainment business.

For ease of management, the Group had combined the artiste management function in respect of movie entertainment business with music entertainment business.

APPRECIATION

For and on behalf of the directors of the Company, I would like to take this opportunity to express my gratitude for the support of our shareholders, my fellow directors, staff and business associates for their commitment and support to the Group during the year.

By Order of the Board
Luk Siu Man, Semon
Chairperson

Hong Kong, 25th June, 2003

Directors' Report

The directors of the Company present their annual report and the audited financial statements for the year ended 31st March, 2003.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 33 to the financial statements.

RESULTS

The results of the Group for the year ended 31st March, 2003 are set out in the consolidated income statement on page 29.

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

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group during the year are set out in note 11 to the financial statements.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Wong Chi Fai

Ms. Fan Man Seung, Vanessa

Mr. Ng Sui Wan (*alias Ng Yu*)

Mr. Cheng Yiu Keung

(deceased on 7th January, 2003)

Non-executive directors:

Ms. Luk Siu Man, Semon (*Chairperson*)

Dr. Chan Kong Sang, Jackie

Dr. So Shu Fai

Independent non-executive directors:

Mr. Wong Ching Yue

Mr. Tso Hon Sai, Bosco

Directors' Report

DIRECTORS *(Continued)*

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

In accordance with Bye-laws 87(1) and 87(2) of the Company's Bye-laws, Mr. Wong Ching Yue and Mr. Tso Hon Sai, Bosco retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

On 21st September, 2001, Mr. Ng Sui Wan (alias Ng Yu) ("Mr. Ng Yu") entered into an employment contract (including the supplement thereto) with Emperor Entertainment (Hong Kong) Limited ("EEHK"), a wholly-owned subsidiary of the Company, in relation to his service as the Chief Executive Officer of the Company and its subsidiaries in connection with their business, for a term commencing from 1st December, 2001 until terminated by not less than three months' notice in writing served by either party on the other or payment in lieu of notice.

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

Apart from the above service agreements, the late Mr. Cheng Yiu Keung had on 1st April, 2001 entered into an employment contract with EEHK in relation to his service as the then managing director of the record division responsible for overseeing the record sales business of the Group. This agreement might be terminated by not less than one month's notice in writing served by either party on the other or payment in lieu of notice.

Ms. Luk Siu Man, Semon ("Ms. Semon Luk") and Dr. Chan Kong Sang, Jackie ("Dr. Jackie Chan") had been appointed for a term of two years commencing from 30th November, 2000 and expired on 29th November, 2002, with the term being renewed for a further term of two years commencing from 30th November, 2002 until terminated by not less than three months' notice in writing served by either party on the other. Dr. So Shu Fai, Mr. Wong Ching Yue and Mr. Tso Hon Sai, Bosco entered into service agreements with the Company for a term of two years commencing from 1st April, 2002, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

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

Directors' Report

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS

(a) During the year, the Group had the following transactions with connected persons as defined in the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules"):

Name of company	Interested party	Nature of transaction	Terms	Amount for the year ended 31st March, 2003 HK\$'000
Strong Time Investments Limited	Ms. Semon Luk (Note 1)	Operating lease rentals paid	20th January, 2000 to 19th January, 2003 at a monthly rental of HK\$89,588 (exclusive of rates, outgoing charges and management fees)	861
		Management fees and air-conditioning charges paid	20th January, 2000 to 19th January, 2003 at a monthly fee of approximately HK\$27,119	261
		Operating lease rentals paid	8th May, 2000 to 19th January, 2003 at a monthly rental of HK\$15,121 (exclusive of rates and management fees)	145
		Management fees and air-conditioning charges paid	8th May, 2000 to 19th January, 2003 at a monthly fee of approximately HK\$4,578	44
		Operating lease rentals paid	20th January, 2003 to 31st March, 2005 at a monthly rental of HK\$83,000 (exclusive of rates, management fees and other outgoing charges)	198
		Management fees paid	20th January, 2003 to 31st March, 2005 at a monthly fee of HK\$31,697 (subject to increase)	76
		Operating lease rentals paid	1st September, 2002 to 31st March, 2005 at a monthly rental of HK\$30,000 (exclusive of rates, management fees and other outgoing charges)	210
		Management fees paid	1st September, 2002 to 31st March, 2005 at a monthly fee of HK\$11,375.30 (subject to increase)	80
Headwise Investment Limited	Emperor International Holdings Limited ("Emperor International") (Note 2)	Operating lease rentals paid	1st November, 2002 to 31st March, 2005 at a monthly rental of HK\$23,000 (exclusive of rates, management fees and other outgoing charges)	92
		Management fees paid	1st November, 2002 to 31st March, 2005 at a monthly fee of HK\$10,062.40 (subject to increase)	50

Directors' Report

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS (Continued)

Name of company	Interested party	Nature of transaction	Terms	Amount for the year ended 31st March, 2003 HK\$'000
East Star Holding Limited	Emperor International (Note 2)	Operating lease rentals paid	1st November, 2002 to 31st March, 2005 at a monthly rental of HK\$29,000 (exclusive of rates, management fees and other outgoing charges)	116
		Management fees paid	1st November, 2002 to 31st March, 2005 at a monthly fee of HK\$10,649.10 (subject to increase)	53
Active Pace Investment Limited	Emperor International (Note 2)	Car park rentals paid	1st September, 2000 onwards at a monthly fee of HK\$4,800 (may be terminated by either party giving to the other party a one-month prior written notice) and the agreement was rescinded on 31st August, 2002	24
		Car park rentals paid	1st September, 2002 to 31st March, 2005 at a monthly fee of HK\$4,800	34
		Car park rentals paid	1st September, 2002 to 31st March, 2005 at a monthly fee of HK\$3,800	27
Blooming World Investment Limited	Emperor International (Note 2)	Car park rentals paid	1st September, 2002 to 31st March, 2005 at a monthly fee of HK\$3,800	27
Emperor Advertising Limited	Emperor International (Note 2)	Advertising agency commission and other fees paid	1st August, 2000 to 31st July, 2002 at an agency commission rate of 7.5% for media advertising service and based on the actual hours spent at an hourly rate of HK\$750 per manpower for promotion and creative services (renewable for a further 12 months at the option of either party) and the agreement was not renewed and expired on 31st July, 2002	21
Emperor International	Emperor International (Note 2)	Advertising fees paid	1st October, 2002 to 31st March, 2005 based on the pricing policy of its subsidiaries operating in the publishing business	548

Directors' Report

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS (Continued)

Name of company	Interested party	Nature of transaction	Terms	Amount for the year ended 31st March, 2003 HK\$'000
Emperor Investment (Management) Limited	Emperor International (Note 2)	Fee paid for back office support services (including internal auditing, accounting, human resources and administrative services)	1st October, 2000 to 30th September, 2002 based on the actual hours spent at the maximum rate of approximately HK\$400 per hour (renewable for a further 12 months at the option of either party) and the agreement was not renewed and expired on 30th September, 2002	188
		Fee paid for professional services (including information technology, legal and secretarial services)	1st October, 2000 to 30th September, 2002 based on the actual hours spent at the rate of approximately HK\$380 per hour for information technology services, and charged on a job-by-job basis for legal and secretarial services (renewable for a further 12 months at the option of either party) and the agreement was not renewed and expired on 30th September, 2002	597
Emperor International	Emperor International (Note 2)	Fee paid for back office support services (including accounting, tax and financial services, internal auditing, human resources and administrative services)	1st October, 2002 to 31st March, 2005 based on the actual hours spent at a rate ranging from HK\$180 to HK\$1,000 per hour for accounting, tax and financial services and HK\$180 per hour for other back office support services	206
		Fee paid for professional services (including information technology, legal and secretarial services)	1st October, 2002 to 31st March, 2005 based on (i) HK\$100 to HK\$500 for each computer per month; (ii) HK\$200 to HK\$380 per hour; or (iii) HK\$7,000 to HK\$10,000 per month for different types of information technology services, and at a rate ranging from HK\$800 to HK\$2,000 per hour for legal and secretarial services	403

Notes:

- (1) Strong Time Investments Limited is the signing agent of Emperor International Exchange (Hong Kong) Company Limited, in which Ms. Semon Luk is 100% interested.
- (2) The company is an indirect wholly-owned subsidiary of Emperor International. Emperor International is a listed company, 74.72% of the shares of which were registered in the name of and beneficially owned by Charron Holdings Limited ("Charron"). The entire issued share capital of Charron was held by Jumbo Wealth Limited ("Jumbo Wealth") on trust for The A & A Unit Trust, a unit trust under The Albert Yeung Discretionary Trust ("Trust"), a discretionary trust set up by Mr. Yeung Sau Shing, Albert ("Mr. Albert Yeung"). Mr. Albert Yeung, as founder of the Trust, was deemed to be interested in the shares held by Charron. By virtue of the aforesaid interests of Mr. Albert Yeung, Ms. Semon Luk, spouse of Mr. Albert Yeung, was also deemed to be interested in 74.72% of the issued share capital held by Charron in Emperor International.

Directors' Report

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS *(Continued)*

As announced by the Company on 1st August, 2002, (i) Yes Records Limited, a wholly-owned subsidiary of the Company, entered into four conditional tenancy agreements and three licence agreements with several connected persons (as defined in the GEM Listing Rules) in relation to the tenancy and licence of several office premises and car parking spaces; (ii) the Company entered into two agreements with a connected person (as defined in the GEM Listing Rules) in relation to the provision of back office services and professional services to the Group; and (iii) the Company entered into an agreement with a connected person (as defined in the GEM Listing Rules) for the provision of advertising space to the Group in the publications operated by certain subsidiaries of that connected person (collectively the "Continuing Connected Transactions").

The directors of the Company considered that (1) the renting of the office premises and car parking spaces mentioned in sub-paragraph (i) above would consolidate the operations of the Group into the same premises which would enhance the efficiency of management of the Group; (2) the back office services and professional services mentioned in sub-paragraph (ii) above would allow the Group to benefit from the economy of scale; and (3) the publications in relation to the advertising space mentioned in sub-paragraph (iii) above are ones among the leading publications in Hong Kong and that the advertising expenditure proposed was in the ordinary course of business of the Group.

Each of the Continuing Connected Transactions and the relevant annual caps were approved by the independent shareholders at the special general meeting of the Company held on 30th August, 2002.

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

Directors' Report

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS *(Continued)*

- (b) As announced by the Company on 23rd October, 2002, Union Praise Limited ("Union Praise"), a wholly-owned subsidiary of the Company, entered into an artiste's service agreement dated 23rd October, 2002 with Jackie & Willie Productions Limited ("Jackie & Willie") in relation to the engagement of Dr. Jackie Chan as a professional actor for a film produced by Union Praise entitled "The Twins Effect" ("Film"). In consideration of Jackie & Willie releasing and/or making available Dr. Jackie Chan for Union Praise for five working days of ten hours each during the period from 23rd October, 2002 to 30th November, 2002 to act as a professional actor in the Film, Union Praise had paid to Jackie & Willie an acting fee of HK\$9,990,000. Dr. Jackie Chan, a non-executive director of the Company, who did not hold any shares in the Company, is also a director of Jackie & Willie, the shares of which are deemed to be beneficially owned as to 99% by Dr. Jackie Chan and his associate (as defined in the GEM Listing Rules). Jackie & Willie is therefore an associate of Dr. Jackie Chan under the GEM Listing Rules. The directors of the Company believed that with Dr. Jackie Chan's participation in the Film would attract a promising box office.

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

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31st March, 2003, the interests of the directors and chief executives of the Company and their respective associates in the shares of the Company and its associated corporations as recorded in the register required to be maintained under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

(a) Interest in the Company

Name of director	Number of shares held				Total
	Personal interest	Family interest	Corporate interest	Other interest	
Ms. Semon Luk	—	192,182,000 <i>(Note)</i>	—	—	192,182,000

Note: The shares were registered in the name of and beneficially owned by Surplus Way. 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 Trust, a discretionary trust set up by Mr. Albert Yeung. Mr. Albert Yeung, as founder of the Trust, was deemed to be interested in the 192,182,000 shares held by Surplus Way. By virtue of the aforesaid interests of Mr. Albert Yeung, Ms. Semon Luk, spouse of Mr. Albert Yeung, was also deemed to be interested in the above 192,182,000 shares held by Surplus Way.

Directors' Report

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

(b) Interest in associated corporation

Name of associated corporation	Nature of interest	Type and number of securities
Emperor International (Note)	Family	64,501,428 ordinary shares of HK\$0.10 each
	Personal	66,047 ordinary shares of HK\$0.10 each

Note: Ms. Semon Luk was the owner of 66,047 shares as at 31st March, 2003. The remaining 64,501,428 shares were registered in the name of and beneficially owned by Charron. 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 Trust, a discretionary trust set up by Mr. Albert Yeung. Mr. Albert Yeung, as founder of the Trust, was deemed to be interested in the shares held by Charron. By virtue of the aforesaid interests of Mr. Albert Yeung, Ms. Semon Luk, spouse of Mr. Albert Yeung, was also deemed to be interested in the 64,501,428 shares in Emperor International.

Save as disclosed above, as at 31st March, 2003, none of the directors or chief executives of the Company or their respective associates 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 GEM Listing Rules.

SHARE OPTION SCHEME AND DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Details of the Company's share option scheme adopted on 30th November, 2000 are set out in note 31(a) to the financial statements. The Company has not grant any option under the share option scheme since its adoption.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable any director or chief executive of the Company or their spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures), of the Company or any other body corporate.

Directors' Report

SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2003, 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 5% 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 (Note)	73.92%
Ms. Semon Luk	192,182,000 (Note)	73.92%

Note: The shares were registered in the name of and beneficially owned by Surplus Way. 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 Trust, a discretionary trust set up by Mr. Albert Yeung. Mr. Albert Yeung, as founder of the Trust, 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, spouse of Mr. Albert Yeung, was also deemed to be interested in the above 192,182,000 shares held by Surplus Way.

MANAGEMENT SHAREHOLDERS

So far as the directors of the Company are aware, as at 31st March, 2003, 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 were registered in the name of and beneficially owned by Surplus Way. 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 Trust, a discretionary trust set up by Mr. Albert Yeung. Mr. Albert Yeung, as founder of the Trust, 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, spouse of Mr. Albert Yeung, was also deemed to be interested in the above 192,182,000 shares held by Surplus Way.

Directors' Report

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group accounted for approximately 40% of the turnover of the Group and the largest customer accounted for approximately 16% of the Group's turnover.

The five largest suppliers contributed to less than 30% of the Group's total purchases and services received for the year.

None of the directors, their associates or any shareholders of the Company (which to the knowledge of the directors of the Company owns more than 5% of the issued capital of the Company) had any interest in any of the five largest customers or suppliers of the Group for the year ended 31st March, 2003.

DONATION

During the year, the Company made charitable donation amounting to HK\$100,000.

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

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

PRE-EMPTIVE RIGHTS

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

CORPORATE GOVERNANCE AND AUDIT COMMITTEE

The Company had complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules during the year.

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.

The audit committee held four meetings during the year. They also reviewed and commented on the Company's draft annual, half-year and quarterly financial reports and met with the external auditors.

Directors' Report

COMPETING INTERESTS

Dr. Jackie Chan, a non-executive director of the Company, is also a director and shareholder of Climbing High Productions Limited, Jackie & Willie, 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. Accordingly, the business of 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, Dr. Jackie Chan's interest in the business of the Movies Companies will not materially affect the Group's business.

The Trust, a discretionary trust set up by Mr. Albert Yeung, a management shareholder of the Company, indirectly held 50% of the shareholding of JC Emperor Movies Limited ("JC Emperor"), a company engaged in the production and distribution of movies. By virtue of the said interests of Mr. Albert Yeung, Ms. Semon Luk, spouse of Mr. Albert Yeung, is also deemed to be interested in the said shareholding held by Mr. Albert Yeung. Accordingly, the business of JC Emperor may constitute competition with the business of the Group. The directors of the Company consider that since Ms. Semon Luk is a non-executive director of the Company and will not exert management control over the Group, the aforesaid interest in the business of JC Emperor will not materially affect the Group's business.

Save as disclosed above, the directors of the Company 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.

SPONSOR'S INTERESTS

Neither the Company's sponsor, BNP Paribas Peregrine Capital Limited ("BNP"), nor its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities) as at 31st March, 2003.

Pursuant to the agreement dated 7th December, 2000 entered into between the Company and BNP, BNP had 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. BNP's role as sponsor ended on 31st March, 2003 and the Company did not retain the services of BNP thereafter.

Directors' Report

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Luk Siu Man, Semon
Chairperson

Hong Kong, 25th June, 2003

Auditors' Report

德勤·關黃陳方會計師行

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

香港中環干諾道中111號
永安中心26樓

**Deloitte
Touche
Tohmatsu**

TO THE SHAREHOLDERS OF EMPEROR ENTERTAINMENT GROUP LIMITED

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 29 to 70 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

BASIS OF OPINION

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

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

Auditors' Report

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st March, 2003 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 25th June, 2003

Consolidated Income Statement

For the year ended 31st March, 2003

	Notes	2003 HK\$'000	2002 HK\$'000
Turnover	4 & 5	166,482	154,713
Other operating income		7,447	6,474
Cost of music production and distribution		(67,592)	(58,324)
Cost of self-organised events		(9,050)	(28,108)
Cost of film and television programme production and distribution		(32,337)	(31,176)
Distribution costs		(24,520)	(17,065)
Administrative expenses		(51,554)	(51,171)
Loss from operations	6	(11,124)	(24,657)
Finance costs	8	(4,820)	(2,725)
Share of results of associates		(3)	(16)
Loss before minority interests		(15,947)	(27,398)
Minority interests		7	—
Net loss for the year		<u>(15,940)</u>	<u>(27,398)</u>
Loss per share	10		
– basic		<u>(6.13) cents</u>	<u>(10.77) cents</u>
– diluted		<u>N/A</u>	<u>(10.77) cents</u>

Consolidated Balance Sheet

At 31st March, 2003

	Notes	2003 HK\$'000	2002 HK\$'000
Non-current assets			
Property, plant and equipment	11	2,130	3,703
Interests in associate	13	—	—
Prepayments and other receivables	14	22,571	7,751
Film rights	15	3,163	262,390
		<u>27,864</u>	<u>273,844</u>
Current assets			
Film rights	15	351,698	23,957
Inventories and record masters	16	3,358	4,133
Trade receivables	17	17,031	9,588
Prepayments and other receivables	14	36,057	26,944
Pledged bank deposits		—	1,200
Bank balances and cash		78,727	64,324
		<u>486,871</u>	<u>130,146</u>
Current liabilities			
Trade payables	18	9,081	19,349
Other payables and accrued charges		118,639	70,005
Amount due to ultimate holding company	19	117,780	55,730
Amount due to a related company	20	—	870
Secured bank loan due within one year	21	177,726	—
Bank overdrafts		1,081	327
		<u>424,307</u>	<u>146,281</u>
Net current assets (liabilities)		<u>62,564</u>	<u>(16,135)</u>
Total assets less current liabilities		<u>90,428</u>	<u>257,709</u>
Minority interests	22	1,921	—
Non-current liabilities			
Loan from a minority shareholder	22	2,000	—
Secured bank loan due after one year	21	—	151,196
		<u>2,000</u>	<u>151,196</u>
		<u>90,349</u>	<u>106,513</u>

Consolidated Balance Sheet

At 31st March, 2003

		2003	2002
	Note	HK\$'000	HK\$'000
Capital and reserves			
Share capital	23	2,600	2,600
Reserves		87,749	103,913
		<hr/>	<hr/>
Shareholders' funds		90,349	106,513
		<hr/> <hr/>	<hr/> <hr/>

The financial statements on pages 29 to 70 were approved and authorised for issue by the Board of Directors on 25th June, 2003 and are signed on its behalf by:

Wong Chi Fai
Director

Fan Man Seung, Vanessa
Director

Balance Sheet

At 31st March, 2003

	Notes	2003 HK\$'000	2002 HK\$'000
Non-current assets			
Interests in subsidiaries	12	<u>113,862</u>	<u>116,523</u>
Current assets			
Prepayments		147	93
Bank balance		<u>—</u>	<u>4</u>
		147	97
Current liabilities			
Other payables		<u>854</u>	<u>833</u>
Net current liabilities		<u>(707)</u>	<u>(736)</u>
Net assets		<u><u>113,155</u></u>	<u><u>115,787</u></u>
Capital and reserves			
Share capital	23	2,600	2,600
Reserves	24	<u>110,555</u>	<u>113,187</u>
Shareholders' funds		<u><u>113,155</u></u>	<u><u>115,787</u></u>

Wong Chi Fai
Director

Fan Man Seung, Vanessa
Director

Consolidated Statement of Changes in Equity

For the year ended 31st March, 2003

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000 (Note 24(c))	Special reserve HK\$'000 (Note 24(d))	Translation reserve HK\$'000	Accumulated losses HK\$'000 (Note 24(e))	Total HK\$'000
At 1st April, 2001	2,400	86,777	91,063	75,000	—	(140,366)	114,874
Issue of new shares	200	19,400	—	—	—	—	19,600
Expenses incurred in connection with the issue of new shares	—	(563)	—	—	—	—	(563)
Net loss for the year	—	—	—	—	—	(27,398)	(27,398)
At 31st March, 2002	2,600	105,614	91,063	75,000	—	(167,764)	106,513
Exchange differences on translation of overseas operations not recognised in the consolidated income statement	—	—	—	—	(224)	—	(224)
Net loss for the year	—	—	—	—	—	(15,940)	(15,940)
At 31st March, 2003	2,600	105,614	91,063	75,000	(224)	(183,704)	90,349

Consolidated Cash Flow Statement

For the year ended 31st March, 2003

	Note	2003 HK\$'000	2002 HK\$'000
Cash flows from operating activities			
Loss before minority interests		(15,947)	(27,398)
Adjustments for:			
Share of results of associates		3	16
Finance lease charges		—	13
Interest expense		4,820	2,712
Interest income		(62)	(1,676)
Depreciation of property, plant and equipment		1,629	1,810
Loss on disposal of property, plant and equipment		1,058	339
Amortisation of film rights		29,634	11,124
Impairment loss on film rights recognised		539	15,134
Effect of foreign exchange rate changes on intercompany balances		(118)	—
		<hr/>	<hr/>
Operating cash flows before movements in working capital		21,556	2,074
Increase in film rights		(91,714)	(212,278)
Decrease (increase) in inventories and record masters		701	(1,589)
(Increase) decrease in trade receivables		(7,464)	17,702
(Increase) decrease in prepayments and other receivables		(23,942)	23,887
(Decrease) increase in trade payables		(10,247)	6,727
Increase in other payables and accrued charges		48,430	28,108
(Decrease) increase in amount due to a related company		(870)	870
		<hr/>	<hr/>
Cash used in operations		(63,550)	(134,499)
Hong Kong Profits Tax refunded		—	13
		<hr/>	<hr/>
Net cash used in operating activities		(63,550)	(134,486)
Cash flows from investing activities			
Decrease (increase) in pledged bank deposits		1,200	(1,200)
Purchase of subsidiaries (net of cash and cash equivalents acquired)	26	297	(32,391)
Interest received		62	1,676
Proceeds from disposal of property, plant and equipment		7	179
Purchase of property, plant and equipment		(1,124)	(1,062)
Increase in amounts due from associates		(3)	(16)
		<hr/>	<hr/>
Net cash from (used in) investing activities		439	(32,814)

Consolidated Cash Flow Statement

For the year ended 31st March, 2003

	2003 HK\$'000	2002 HK\$'000
Cash flows from financing activities		
Net cash inflow from ultimate holding company	62,050	24,306
Bank loan raised	26,530	151,196
Capital contribution from the minority shareholder of a subsidiary	23	—
Interest paid	(11,793)	(2,793)
Proceeds from issue of new shares	—	19,600
Expenses paid in connection with the issue of new shares	—	(563)
Repayment of other loan	—	(60,000)
Repayment of obligations under a finance lease	—	(50)
Finance lease charges paid	—	(13)
	<hr/>	<hr/>
Net cash from financing activities	76,810	131,683
	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	13,699	(35,617)
Cash and cash equivalents at beginning of the year	63,997	99,614
Effect of foreign exchange rate changes	(50)	—
	<hr/>	<hr/>
Cash and cash equivalents at end of the year	<u>77,646</u>	<u>63,997</u>
	<hr/>	<hr/>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	78,727	64,324
Bank overdrafts	(1,081)	(327)
	<hr/>	<hr/>
	<u>77,646</u>	<u>63,997</u>
	<hr/>	<hr/>

Notes to the Financial Statements

For the year ended 31st March, 2003

1. GENERAL

The Company is incorporated as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda (as amended). Its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (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 set out in note 33.

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted for the first time a number of new or revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants. The adoption of these SSAPs have resulted in a change in the format of presentation of the consolidated cash flow statement and the introduction of the consolidated statement of changes in equity, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required. Comparative amounts for the previous year have therefore been restated to achieve a consistent presentation.

Cash flow statements

In the current year, the Group has adopted SSAP 15 (Revised) "Cash flow statements". Under SSAP 15 (Revised), cash flows are classified under three headings - operating, investing and financing, rather than the previous five headings. Interest received and paid, which were previously presented under a separate heading, are classified as investing and financing cash flows respectively. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities.

Employee benefits

In the current year, the Group has adopted SSAP 34 "Employee benefits", which introduces measurement rules for employee benefits, including retirement benefits schemes. Because the Group participates only in defined contribution retirement benefits schemes, the adoption of SSAP 34 has not had any material impact on the financial statements.

Notes to the Financial Statements

For the year ended 31st March, 2003

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE *(Continued)*

Foreign currencies

The revisions to SSAP 11 “Foreign currency translation” have eliminated the choice of translating the income statements of overseas operations at closing rate for the year, the policy previously followed by the Group. The income and expenses of overseas operations are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st March each year.

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

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

Goodwill and negative goodwill

Goodwill or negative goodwill arising on consolidation represents respectively the excess or shortfall of the cost of acquisition over the Group’s interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition.

Goodwill is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate.

Negative goodwill is presented as a deduction from assets and is released to income based on an analysis of the circumstances from which the balance resulted. Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of the associate.

On disposal of a subsidiary or an associate, the attributable amount of unamortised goodwill is included in the determination of the gain or loss on disposal.

Notes to the Financial Statements

For the year ended 31st March, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Turnover

Turnover represents the aggregate of net amounts received and receivable from albums sold, musical works licensed, production and distribution of films and television programmes, licensing of distribution rights over films and television programmes, event production completed, and services provided during the year.

Revenue recognition

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

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

Income from the production and distribution of films and television programmes is recognised when the production is complete and released and the amount can be measured reliably.

Income from the licensing of the distribution rights over films and television programmes is recognised when the Group's entitlement to such payments has been established which is upon the delivery of the master copy or materials to the customers or when the notice of delivery is served to the customers.

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

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

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

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

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

Notes to the Financial Statements

For the year ended 31st March, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

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

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

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

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any identified impairment loss.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets or liabilities of the associates less any identified impairment loss.

Notes to the Financial Statements

For the year ended 31st March, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Film rights

Film rights are stated at cost less accumulated amortisation and any identified impairment loss.

Amortisation is charged to the income statement using a method that reasonably relates the net carrying amount of film rights to the net revenue expected to be realised.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Inventories and record masters

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

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

Taxation

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

Notes to the Financial Statements

For the year ended 31st March, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

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

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Retirement benefits costs

Payments to defined contribution retirement benefits schemes are charged as an expense as they fall due.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the period of the relevant leases.

Notes to the Financial Statements

For the year ended 31st March, 2003

4. TURNOVER

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
An analysis of the Group's turnover is as follows:		
Music production and distribution		
– sales of albums	74,418	66,656
– licence income	26,000	15,984
	<u>100,418</u>	<u>82,640</u>
Production and distribution of films and television programmes and licensing of the corresponding distribution rights	<u>30,392</u>	<u>18,725</u>
Artiste management fee income	<u>22,316</u>	<u>16,877</u>
Event production		
– gross revenue from self-organised events	10,748	36,275
– share of net income from jointly organised events	2,608	196
	<u>13,356</u>	<u>36,471</u>
	<u><u>166,482</u></u>	<u><u>154,713</u></u>

5. SEGMENT INFORMATION

For management purposes, the Group is currently organised into four operating divisions, namely, (a) music production and distribution; (b) film and television programme production, distribution and licensing; (c) artiste management; and (d) event production. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Music production and distribution	—	sales of albums and licensing of musical works
Film and television programme production, distribution and licensing	—	production and distribution of films and television programmes and licensing of distribution rights over films and television programmes
Artiste management	—	provision of management services to artistes
Event production	—	concert management and organisation

Notes to the Financial Statements

For the year ended 31st March, 2003

5. SEGMENT INFORMATION (Continued)

(a) By activity

	2003		2002	
	Turnover	Contribution to net loss for the year	Turnover	Contribution to net loss for the year
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Music production and distribution	100,418	11,223	82,640	149
Film and television programme production, distribution and licensing	30,392	(28,033)	18,725	(31,096)
Artiste management	22,316	7,722	16,877	10,377
Event production	13,356	2,117	36,471	2,638
	<u>166,482</u>	<u>(6,971)</u>	<u>154,713</u>	<u>(17,932)</u>
Other operating income not allocated to major activities		1,103		2,323
Unallocated corporate expenses		(5,256)		(9,048)
Loss from operations		(11,124)		(24,657)
Finance costs		(4,820)		(2,725)
Share of results of associates		(3)		(16)
Loss before minority interests		(15,947)		(27,398)
Minority interests		7		—
Net loss for the year		<u>(15,940)</u>		<u>(27,398)</u>

Notes to the Financial Statements

For the year ended 31st March, 2003

5. SEGMENT INFORMATION (Continued)

(a) By activity (Continued)

	Music production and distribution HK\$'000	Film and television programme production, distribution and licensing HK\$'000	Artiste management HK\$'000	Event production HK\$'000	Total HK\$'000
Balance sheet as at 31st March, 2003					
ASSETS					
Segment assets	<u>56,753</u>	<u>431,512</u>	<u>9,342</u>	<u>1,048</u>	498,655
Unallocated corporate assets					<u>16,080</u>
Consolidated total assets					<u>514,735</u>
LIABILITIES					
Segment liabilities	<u>64,055</u>	<u>238,486</u>	<u>1,080</u>	<u>2,909</u>	306,530
Unallocated corporate liabilities					<u>119,777</u>
Consolidated total liabilities					<u>426,307</u>
Other information for the year ended 31st March, 2003					
Depreciation of property, plant and equipment	533	500	232	30	1,295
Unallocated depreciation of property, plant and equipment					<u>334</u>
					<u>1,629</u>
Amortisation of film rights	—	29,634	—	—	<u>29,634</u>
Impairment loss on film rights	—	539	—	—	<u>539</u>
Additions to property, plant and equipment and film rights	249	99,071	195	6	99,521
Unallocated additions					<u>290</u>
					<u>99,811</u>

Notes to the Financial Statements

For the year ended 31st March, 2003

5. SEGMENT INFORMATION (Continued)

(a) By activity (Continued)

	Music production and distribution HK\$'000	Film and television programme production, distribution and licensing HK\$'000	Artiste management HK\$'000	Event production HK\$'000	Total HK\$'000
Balance sheet as at 31st March, 2002					
ASSETS					
Segment assets	<u>22,404</u>	<u>352,371</u>	<u>13,304</u>	<u>4,320</u>	392,399
Unallocated corporate assets					<u>11,591</u>
Consolidated total assets					<u>403,990</u>
LIABILITIES					
Segment liabilities	<u>21,684</u>	<u>212,942</u>	<u>1,471</u>	<u>954</u>	237,051
Unallocated corporate liabilities					<u>60,426</u>
Consolidated total liabilities					<u>297,477</u>
Other information for the year ended 31st March, 2002					
Depreciation of property, plant and equipment	677	420	274	37	1,408
Unallocated depreciation of property, plant and equipment					<u>402</u>
					<u>1,810</u>
Amortisation of film rights	—	11,124	—	—	<u>11,124</u>
Impairment loss on film rights	—	15,134	—	—	<u>15,134</u>
Additions to property, plant and equipment and film rights	485	212,424	197	26	213,132
Unallocated additions					<u>289</u>
					<u>213,421</u>

Notes to the Financial Statements

For the year ended 31st March, 2003

5. SEGMENT INFORMATION (Continued)

(b) By geographical market

	Turnover			
	2003 HK\$'000	2002 HK\$'000		
Greater China				
– Hong Kong	151,325	142,429		
– Mainland China	3,974	4,151		
– Taiwan	3,588	4,933		
Other areas	7,595	3,200		
	<u>166,482</u>	<u>154,713</u>		
			Additions to property, plant and equipment and film rights	
	Carrying amount of segment assets		2003	2002
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Greater China				
– Hong Kong	128,795	69,575	61,123	5,087
– Mainland China	13,846	13,791	573	3,895
– Taiwan	3,327	1,882	60	41
Ireland	365,649	318,221	38,055	204,398
Other areas	3,118	521	—	—
	<u>514,735</u>	<u>403,990</u>	<u>99,811</u>	<u>213,421</u>

Notes to the Financial Statements

For the year ended 31st March, 2003

6. LOSS FROM OPERATIONS

	2003 HK\$'000	2002 HK\$'000
Loss from operations has been arrived at after charging:		
Directors' remuneration (<i>note 7</i>)	4,553	3,010
Retirement benefits scheme contributions, net of forfeited contributions of HK\$185,000 (2002: HK\$336,000)	1,023	745
Other staff costs	28,792	26,714
Total staff costs	34,368	30,469
Allowance for bad and doubtful debts	643	874
Amortisation of film rights charged to cost of film and television programme production and distribution	29,634	11,124
Auditors' remuneration		
– current year	1,240	1,113
– (over)underprovision in prior year	(46)	172
Depreciation of property, plant and equipment		
– owned assets	1,629	1,799
– asset held under a finance lease	—	11
Impairment loss on film rights recognised and included in cost of film and television programme production and distribution	539	15,134
Loss on disposal of property, plant and equipment	1,058	339
Operating lease rentals in respect of rented premises	3,623	3,795
and after crediting:		
Interest income	62	1,676
Rental income from sub-letting	837	731

Notes to the Financial Statements

For the year ended 31st March, 2003

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Directors		
Independent non-executive directors		
Fees	<u>200</u>	<u>200</u>
Non-executive directors		
Fees	<u>300</u>	<u>275</u>
Executive directors		
Fees	377	300
Salaries and other benefits	3,428	2,142
Bonuses	125	—
Retirement benefits scheme contributions	<u>123</u>	<u>93</u>
	<u>4,053</u>	<u>2,535</u>
Total directors' emoluments	<u><u>4,553</u></u>	<u><u>3,010</u></u>

The emoluments of the directors were as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Director A	100	100
Director B	100	100
Director C	100	75
Director D	100	100
Director E	100	100
Director F	100	100
Director G	100	100
Director H	1,047	1,402
Director I	2,806	276
Director J	<u>—</u>	<u>657</u>

Notes to the Financial Statements

For the year ended 31st March, 2003

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

Employees

During the year, the five highest paid individuals included two directors (2002: two directors, one of whom was appointed as a director of the Company in that year, details of whose emoluments are set out above). The total emoluments of the remaining three highest paid individuals (2002: four highest paid individuals, including the individual appointed as a director of the Company during that year) were as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and other benefits	4,762	3,630
Bonuses	—	—
Retirement benefits scheme contributions	105	74
	<u>4,867</u>	<u>3,704</u>

Number of individuals	
2003	2002

Emoluments of the employees were within the following band:

Nil – HK\$1,000,000	1	3
HK\$1,000,001 – HK\$1,500,000	—	1
HK\$1,500,001 – HK\$2,000,000	1	—
HK\$2,000,001 – HK\$2,500,000	1	—
	<u>1</u>	<u>—</u>

During the year, no emoluments were paid by the Group to the five highest paid individuals of the Group (including directors) as an inducement to join or upon joining the Group or as compensation for loss of office. No director had waived any emoluments during the year.

Notes to the Financial Statements

For the year ended 31st March, 2003

8. FINANCE COSTS

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Interest on:		
– bank borrowings	6,973	81
– other borrowings	4,820	2,712
– obligations under a finance lease	—	13
	<hr/>	<hr/>
Total borrowing costs	11,793	2,806
Less: Amount capitalised in film rights (see also note 21)	(6,973)	(81)
	<hr/>	<hr/>
	4,820	2,725
	<hr/> <hr/>	<hr/> <hr/>

9. TAXATION

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

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

Details of unrecognised deferred taxation for the year are set out in note 25.

Notes to the Financial Statements

For the year ended 31st March, 2003

10. LOSS PER SHARE

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

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
<i>Loss:</i>		
Loss attributable to shareholders and loss for the purpose of basic and diluted loss per share	<u>(15,940)</u>	<u>(27,398)</u>
	2003	2002
<i>Number of shares:</i>		
Weighted average number of shares for the purpose of basic loss per share	<u>260,000,000</u>	254,465,753
Effect of dilutive potential shares: Pre-IPO share options		—
Weighted average number of shares for the purpose of diluted loss per share		<u>254,465,753</u>

Notes to the Financial Statements

For the year ended 31st March, 2003

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP						
COST						
At 1st April, 2002	3,075	2,098	1,225	1,975	1,025	9,398
Currency realignment	—	(2)	—	(2)	—	(4)
Additions	601	146	305	72	—	1,124
Disposals	(1,484)	(13)	(91)	—	—	(1,588)
At 31st March, 2003	2,192	2,229	1,439	2,045	1,025	8,930
DEPRECIATION						
At 1st April, 2002	1,670	1,283	542	1,932	268	5,695
Currency realignment	—	(1)	—	—	—	(1)
Provided for the year	487	629	261	31	221	1,629
Eliminated on disposals	(462)	(10)	(51)	—	—	(523)
At 31st March, 2003	1,695	1,901	752	1,963	489	6,800
NET BOOK VALUE						
At 31st March, 2003	497	328	687	82	536	2,130
At 31st March, 2002	1,405	815	683	43	757	3,703

Notes to the Financial Statements

For the year ended 31st March, 2003

12. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	11,333	11,333
Amounts due from subsidiaries	102,529	105,190
	<u>113,862</u>	<u>116,523</u>

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

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

Particulars of the principal subsidiaries of the Company at 31st March, 2003 are set out in note 33.

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

Notes to the Financial Statements

For the year ended 31st March, 2003

13. INTERESTS IN ASSOCIATE

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Share of net liabilities	(931)	(928)
Amount due from associate	931	928
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>

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

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

Particulars of the Group's associate at 31st March, 2003 are as follows:

Name of associate	Place of incorporation	Attributable equity interest held by the Group	Principal activities
eFoodland Limited	Hong Kong	30%	Inactive

Notes to the Financial Statements

For the year ended 31st March, 2003

14. PREPAYMENTS AND OTHER RECEIVABLES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Prepaid artiste fees (note (a))	39,420	17,860
Prepaid salaries (note (b))	667	1,667
Loans to artistes (note (c))	5,654	5,107
Other prepayments and receivables	12,887	10,061
	<u>58,628</u>	<u>34,695</u>
The amount of prepayments and other receivables is analysed for reporting purpose as follows:		
Non-current portion	22,571	7,751
Current portion	36,057	26,944
	<u>58,628</u>	<u>34,695</u>

Notes:

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

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Non-current portion	20,834	7,084
Current portion	18,586	10,776
	<u>39,420</u>	<u>17,860</u>

Notes to the Financial Statements

For the year ended 31st March, 2003

14. PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

- (b) On 21st September, 2001, Mr. Ng Sui Wan (alias Ng Yu) entered into an employment contract (including the supplement thereto) with Emperor Entertainment (Hong Kong) Limited, a wholly-owned subsidiary of the Company, in relation to his service as the chief executive officer of the Company and its subsidiaries in connection with their business commencing from 1st December, 2001 (the "Commencement Date"), such term may be terminated by not less than three months' notice in writing served by either party to the other or by paying three months' basic salary in lieu of notice. In addition, in accordance with the terms of the employment contract, an amount of HK\$2,000,000 was paid to him upon the signing of the employment contract. In the event that the contract is terminated within two years from the Commencement Date, the amount has to be refunded on a pro-rata basis. The sum is therefore accounted for as prepaid salaries and charged to the income statement on a straight line basis over the 24 months from the Commencement Date. The unamortised amount at the balance sheet is analysed for reporting purpose as follows:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Non-current portion	—	667
Current portion	667	1,000
	<u>667</u>	<u>1,667</u>

Mr. Ng Sui Wan (alias Ng Yu) was appointed a director of the Company on 21st February, 2002.

- (c) The loans to artistes are unsecured, non-interest bearing and have no fixed repayment terms. The amount of loans to artistes that is expected to be repaid within twelve months from the balance sheet date is classified as current assets. The remaining balance is classified as non-current assets. The amount of loans to artistes at the balance sheet is analysed for reporting purpose as follows:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Non-current portion	1,737	—
Current portion	3,917	5,107
	<u>5,654</u>	<u>5,107</u>

Notes to the Financial Statements

For the year ended 31st March, 2003

15. FILM RIGHTS

	THE GROUP <i>HK\$'000</i>
COST	
At 1st April, 2002	315,327
Additions	98,687
	<hr/>
At 31st March, 2003	414,014
	<hr/>
AMORTISATION AND IMPAIRMENT	
At 1st April, 2002	28,980
Provided for the year	29,634
Impairment loss recognised in the year	539
	<hr/>
At 31st March, 2003	59,153
	<hr/>
CARRYING AMOUNT	
At 31st March, 2003	354,861
	<hr/> <hr/>
At 31st March, 2002	286,347
	<hr/> <hr/>

The carrying amount of film rights is analysed for reporting purpose as follows:

	THE GROUP	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current portion	3,163	262,390
Current portion	351,698	23,957
	<hr/>	<hr/>
	354,861	286,347
	<hr/> <hr/>	<hr/> <hr/>

Included in film rights is interest capitalised of HK\$7,054,000 (2002: HK\$81,000).

During the year, the Group has undertaken a review of its library of film rights to assess the marketability of respective film rights and the corresponding recoverable amounts. The carrying amount of certain of the film rights amounting to HK\$539,000 was written off to the income statement.

Notes to the Financial Statements

For the year ended 31st March, 2003

16. INVENTORIES AND RECORD MASTERS

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Record masters	3,073	3,890
Finished goods	285	243
	<u>3,358</u>	<u>4,133</u>

The above amounts are stated at cost.

17. TRADE RECEIVABLES

The Group allows credit periods of up to 60 days to its trade customers. The following is an aged analysis of trade receivables:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Current	9,285	5,926
Overdue		
0 – 30 days	4,476	2,255
31 – 60 days	2,340	278
61 – 90 days	496	530
over 90 days	434	599
	<u>17,031</u>	<u>9,588</u>

18. TRADE PAYABLES

The following is an aged analysis of trade payables:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Current	3,877	693
Overdue		
0 – 30 days	2,339	15,910
31 – 60 days	733	890
61 – 90 days	577	305
over 90 days	1,555	1,551
	<u>9,081</u>	<u>19,349</u>

Notes to the Financial Statements

For the year ended 31st March, 2003

19. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

The amount is unsecured, bears interest at Hong Kong prime rate and is repayable on demand.

20. AMOUNT DUE TO A RELATED COMPANY

The amount was a trading balance.

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

21. SECURED BANK LOAN

The bank loan bears interest at prevailing market rates and is repayable by 31st August, 2003. The bank loan was obtained from a bank for the purpose of financing the production of a film. As security, the Company has assigned to the bank the Group's right, title and interest in that film and also the Group's right, title and interest in and to certain distribution agreements and the proceeds of each of them relating to that film with a carrying amount of HK\$295,300,000 at 31st March, 2003 (2002: HK\$258,800,000) to the bank to secure the facilities granted.

22. MINORITY INTERESTS/LOAN FROM A MINORITY SHAREHOLDER

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Share of net liabilities of subsidiaries	<u>1,921</u>	<u>—</u>
Loan from a minority shareholder of a subsidiary	<u>2,000</u>	<u>—</u>

The loan from a minority shareholder of a subsidiary is unsecured and non-interest bearing. The minority shareholder is entitled to repayment only after his share of losses in the relevant subsidiary are made good. Accordingly, the loan is shown as non-current liabilities.

Notes to the Financial Statements

For the year ended 31st March, 2003

23. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Shares of HK\$0.01 each		
<i>Authorised:</i>		
At 1st April, 2001, 31st March, 2002 and 31st March, 2003	<u>10,000,000,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i>		
At 1st April, 2001	240,000,000	2,400
Issue of new shares to Questrel	<u>20,000,000</u>	<u>200</u>
At 31st March, 2002 and 31st March, 2003	<u>260,000,000</u>	<u>2,600</u>

During the year ended 31st March, 2002, an arrangement was made for a private placement to independent investors of 20,000,000 shares of HK\$0.01 each in the Company held by Questrel Holdings Limited ("Questrel"), a then substantial shareholder of the Company, at a price of HK\$0.98 per share. Questrel then agreed to subscribe for 20,000,000 new shares of HK\$0.01 each in the Company at a price of HK\$0.98 per share, which is equivalent to the price of the private placement mentioned above. These new shares rank pari passu with the then existing shares in all respects.

24. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY				
At 1st April, 2001	86,777	11,233	(794)	97,216
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 year	<u>—</u>	<u>—</u>	<u>(2,866)</u>	<u>(2,866)</u>
At 31st March, 2002	105,614	11,233	(3,660)	113,187
Net loss for the year	<u>—</u>	<u>—</u>	<u>(2,632)</u>	<u>(2,632)</u>
At 31st March, 2003	<u>105,614</u>	<u>11,233</u>	<u>(6,292)</u>	<u>110,555</u>

Notes to the Financial Statements

For the year ended 31st March, 2003

24. RESERVES (Continued)

- (a) The contributed surplus of the Company represents the difference between the consolidated net assets of the Company's subsidiaries and the nominal value of the Company's shares issued pursuant to the group reorganisation effective on 30th November, 2000.

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

- (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.
- (b) In the opinion of the directors of the Company, the Company's reserves available for distribution to shareholders at the balance sheet date are as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Contributed surplus	11,233	11,233
Accumulated losses	(6,292)	(3,660)
	<u>4,941</u>	<u>7,573</u>

- (c) The contributed surplus of the Group represents the difference between the aggregate of the nominal amount of the share capital and share premium of the subsidiaries at the date on which they were acquired by the Group and the nominal amount of the share capital issued as consideration for the acquisition.
- (d) The special reserve of the Group represents advances of HK\$75,000,000 from Questrel which were waived by Questrel as part of the group reorganisation in November 2000.
- (e) The accumulated losses of the Group include HK\$931,000 (2002: HK\$928,000) attributable to the associates of the Group.

Notes to the Financial Statements

For the year ended 31st March, 2003

25. UNRECOGNISED DEFERRED TAX ASSET

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
At beginning of the year	17,283	16,174
Attributable to subsidiaries acquired during the year	—	1,931
Unrecognised credit (charge) for the year	3,555	(822)
At end of the year	<u>20,838</u>	<u>17,283</u>

At the balance sheet date, the unrecognised deferred tax asset represented principally the tax effect of timing differences attributable to tax losses available to relieve future assessable profits. The deferred tax asset has not been recognised in the financial statements as it is not certain that the tax benefit will be realised in the foreseeable future. There were no other significant timing differences arising during the year or at the balance sheet date.

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

Notes to the Financial Statements

For the year ended 31st March, 2003

26. PURCHASE OF SUBSIDIARIES

	2003 HK\$'000	2002 HK\$'000
Net assets acquired:		
Property, plant and equipment	—	2,276
Interests in associates		
– Share of net liabilities	—	(304)
– Amounts due from associates	—	304
Film rights	—	100,246
Trade receivables	—	1,089
Prepayments and other receivables	—	6,720
Bank balances and cash	299	20,390
Trade payables	—	(5,069)
Other payables and accrued charges	(234)	(12,871)
Amount due to a group company	—	(18)
Other loan	—	(60,000)
Loan from a minority shareholder	(2,000)	—
Minority interests	1,937	—
	<u>2</u>	<u>52,763</u>
Satisfied by:		
Cash consideration	2	52,781
Interests in associate reclassified	—	(18)
	<u>2</u>	<u>52,763</u>
Analysis on inflow (outflow) of cash and cash equivalents in connection with the purchase of subsidiaries:		
Cash consideration	(2)	(52,781)
Bank balances and cash acquired	299	20,390
Net inflow (outflow) of cash and cash equivalents in respect of the purchase of subsidiaries	<u>297</u>	<u>(32,391)</u>

The subsidiaries acquired during the year did not have significant contribution to the Group's operating results and cash flows for the year.

The subsidiaries acquired in 2002 utilised HK\$178,182,000 for the Group's operating activities, utilised HK\$66,000 for investing activities and contributed HK\$90,859,000 for financing activities.

The subsidiaries acquired in 2002 contributed HK\$18,941,000 to the Group's turnover and HK\$34,818,000 to the Group's net loss in that year.

Notes to the Financial Statements

For the year ended 31st March, 2003

27. RETIREMENT BENEFITS SCHEME

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

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

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

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

28. CAPITAL COMMITMENTS

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	<u>—</u>	<u>287</u>

The Company had no significant capital commitments at the balance sheet date.

Notes to the Financial Statements

For the year ended 31st March, 2003

29. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Within one year	2,475	2,189
In the second to fifth year inclusive	2,327	636
	<u>4,802</u>	<u>2,825</u>

The lease payments are fixed and no arrangements have been entered into for contingent rental payments.

The Company had no significant operating lease commitments at the balance sheet date.

30. OTHER COMMITMENTS

At 31st March, 2003, the Group was committed to pay an aggregate sum of HK\$19,784,000 (2002: HK\$19,896,000) and HK\$6,823,000 (2002: HK\$6,965,000) respectively in respect of artiste fees and film production costs.

The Company had no significant other commitments at the balance sheet date.

Notes to the Financial Statements

For the year ended 31st March, 2003

31. SHARE OPTION SCHEMES

- (a) 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 of the Company, 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 offer 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 including the Pre-IPO Share Option Scheme as defined in paragraph (b) below) exceed in nominal amount 30% of the issued share capital of the Company from time to time. An option may be exercised at any time during a period to be determined and notified by the directors of the Company to each grantee, which period may not expire earlier than three years and later than ten years from the date of grant of 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.

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

Notes to the Financial Statements

For the year ended 31st March, 2003

31. SHARE OPTION SCHEMES (Continued)

The Company had, during the year ended 31st March, 2001, granted options to Mr. Lee Chun, Frankie, a then executive director of the Company, 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 was exercisable within twelve months from the expiry of twelve months from 19th December, 2000, the date on which the Company's shares were listed on GEM of the Stock Exchange. All the 9,259,259 option shares remained outstanding at 1st April, 2001. The option lapsed when Mr. Lee Chun, Frankie resigned as an executive director and the chief executive officer of the Company with effect from 30th June, 2001.

32. RELATED PARTY TRANSACTIONS

(a) During the year, the Group had transactions with related parties as follows:

	2003 HK\$'000	2002 HK\$'000
Advertising agency commission and other fees paid	27	582
Advertising and promotion expenses paid	979	951
Car park rentals paid	133	109
Corporate secretarial fee paid	267	—
Event income received	—	359
Fees paid for back office support services (including accounting, tax and financial services, internal auditing, human resources and administrative services)	394	315
Fees paid for professional services (including information technology, legal and secretarial services)	1,190	1,884
Interest paid to former ultimate holding company	—	815
Interest paid to ultimate holding company	4,820	1,521
Management fees and air-conditioning charges paid	564	122
Operating lease rentals paid	1,891	400
Placement commission fees paid	—	490
Purchase of merchandising goods	305	—
Royalty income received	16	135

Certain directors and substantial shareholders of the Company have beneficial or deemed interests in the above related parties.

Notes to the Financial Statements

For the year ended 31st March, 2003

32. RELATED PARTY TRANSACTIONS (Continued)

- (b) On 27th June, 2001, Questrel subscribed for 20,000,000 new shares of HK\$0.01 each in the Company at a price of HK\$0.98 per share, representing approximately 8.33% of the then existing issued share capital of the Company and approximately 7.69% of the enlarged issued share capital as a result of the subscription. The subscription price was equivalent to the price of a private placement arrangement on the same date of 20,000,000 shares of HK\$0.01 each in the Company held by Questrel to independent investors, which represented a premium of approximately 11.6% to the average of the closing market price of the Company's shares of HK\$0.878 for the preceding ten trading days up to including 27th June, 2001.
- (c) On 4th July, 2001, Expert Help Profits Limited (now renamed EEG Holdings Limited), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Questrel to acquire from Questrel the entire interest in Emperor Movie Holdings Limited ("EMH") and the outstanding loan due to Questrel from EMH for a total cash consideration of HK\$52,781,000, which represented the sum equivalent to the aggregate of the consolidated net liabilities of EMH and the face value of the outstanding loan due to Questrel from EMH on 10th August, 2001.

The above transactions were carried out in accordance with the terms of the relevant agreements or the terms mutually agreed between the Group and the relevant parties.

33. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company at 31st March, 2003 are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital	Principal activities
Mile Oak Profits Limited	British Virgin Islands	US\$6	Investment holding
Artlanda Limited	Hong Kong	HK\$2	Production of films and provision of agency services to group companies
EEG Music Publishing Limited	Hong Kong	HK\$2	Licensing of musical works

Notes to the Financial Statements

For the year ended 31st March, 2003

33. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital	Principal activities
Emperor Entertainment Group (International) Limited	Mauritius	US\$1,000	Licensing of musical and multimedia works
Emperor Entertainment Group (Taiwan) Limited	British Virgin Islands/ Taiwan	US\$1	Licensing of musical works and provision of agency services to group companies
Emperor Entertainment (Hong Kong) Limited	Hong Kong	HK\$10,000,000	Trading and production of audio-visual products, licensing of musical works, provision of management services to artistes and concert management and organisation
Emperor Entertainment Limited	Hong Kong	HK\$2	Trading and production of audio-visual products, licensing of musical works and concert management and organisation
Emperor Multimedia (International) Limited	British Virgin Islands/Japan and Macau	US\$1	Production and distribution of films and licensing of distribution rights
Emperor Multimedia Group (HK) Limited	Hong Kong	HK\$10,000	Investment holding, production and distribution of films and licensing of distribution rights
Giant Lead Profits Limited	British Virgin Islands/Macau and Thailand	US\$1	Production and distribution of films and licensing of distribution rights
Goldpeak Corporation Limited	Hong Kong	HK\$2	Production and distribution of films and licensing of distribution rights

Notes to the Financial Statements

For the year ended 31st March, 2003

33. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital	Principal activities
Golden Port Productions Limited	Ireland	IR£2	Production and distribution of films, licensing of distribution rights and provision of distribution services
Music Icon Records Limited	Hong Kong	HK\$2	Trading and production of audio-visual products, licensing of musical works and provision of management services to artistes

All the above companies are limited liability companies.

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

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

Financial Summary

	Year ended 31st March,				
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
RESULTS					
Turnover	166,482	154,713	122,399	52,082	12,253
Other operating income	7,447	6,474	5,768	2,071	1,400
Cost of music production and distribution	(67,592)	(58,324)	(64,998)	(52,389)	(15,727)
Cost of self-organised events	(9,050)	(28,108)	(5,883)	(1,852)	—
Cost of film and television programme production and distribution	(32,337)	(31,176)	—	—	—
Distribution costs	(24,520)	(17,065)	(8,595)	(5,956)	(4,707)
Administrative expenses	(51,554)	(51,171)	(39,364)	(21,528)	(13,072)
(Loss) profit from operations	(11,124)	(24,657)	9,327	(27,572)	(19,853)
Finance costs	(4,820)	(2,725)	(28)	(41)	(96)
Share of results of associates	(3)	(16)	(611)	(15)	—
(Loss) profit before taxation	(15,947)	(27,398)	8,688	(27,628)	(19,949)
Taxation	—	—	—	(5)	—
(Loss) profit before minority interests	(15,947)	(27,398)	8,688	(27,633)	(19,949)
Minority interests	7	—	—	—	—
Net (loss) profit for the year	<u>(15,940)</u>	<u>(27,398)</u>	<u>8,688</u>	<u>(27,633)</u>	<u>(19,949)</u>

	At 31st March,			
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
ASSETS AND LIABILITIES				
Total assets	514,735	403,990	182,927	49,130
Total liabilities	(426,307)	(297,477)	(68,053)	(198,184)
Minority interests	1,921	—	—	—
Shareholders' funds	<u>90,349</u>	<u>106,513</u>	<u>114,874</u>	<u>(149,054)</u>

Note: The results for each of the three years ended 31st March, 2001 and the assets and liabilities at 31st March, 2000 have been prepared on a merger accounting basis as if the group structure immediately after the group reorganisation effective on 30th November, 2000 had been in existence since 1st April, 1998.



EMPEROR ENTERTAINMENT GROUP LIMITED

英皇娛樂集團有限公司*

(Incorporated in Bermuda with limited liability)

PROXY FORM

Form of proxy for use at the Annual General Meeting to be held on 27th August, 2003

I/We¹ _____

of _____

being the registered holder(s) of _____

shares² of HK\$0.01 each in the capital of the above-named Company, HEREBY APPOINT THE CHAIRPERSON OF THE MEETING or³ _____

of _____

as my/our proxy to vote and act for me/us at the Annual General Meeting (and at any adjournment thereof) of the said Company to be held at 25th Floor, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong on 27th August, 2003 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the Resolutions set out in the Notice convening the said Meeting and at such Meeting (and at any adjournment thereof) to vote for me/us and in my/our name(s) in respect of the Resolutions as indicated below⁴.

RESOLUTIONS	FOR	AGAINST
1. To receive and consider the audited consolidated financial statements and the reports of the Directors and Auditors for the year ended 31st March, 2003.		
2. (i) To re-elect Mr. Wong Ching Yue as Director.		
(ii) To re-elect Mr. Tso Hon Sai, Bosco as Director.		
(iii) To authorise the Board of Directors to fix directors' remuneration.		
(iv) To grant power to the Board of Directors to appoint additional Director(s).		
3. To re-appoint Deloitte Touche Tohmatsu as Auditors and to authorise the Board of Directors to fix their remuneration.		
4. (A) To grant to the Directors of the Company a general mandate to allot shares in the capital of the Company.		
(B) To grant a general mandate to Directors to repurchase shares of the Company.		
(C) To add repurchased shares to the general mandate pursuant to Resolution 4(A).		

Dated this _____ day of _____ 2003. Signed: _____

Notes:

- Full name(s) and address(es) to be inserted in BLOCK CAPITALS.
- Please insert the number of shares registered in your name(s). If no number is inserted, this form of proxy will be deemed to relate to all the shares in the Company registered in your name(s).
- If any proxy other than the Chairperson is preferred, strike out "the Chairperson of the Meeting" here and insert the name and address of the proxy desired in the space provided. ANY ALTERATION MADE TO THIS FORM OF PROXY MUST BE INITIALLED BY THE PERSON WHO SIGNS IT.
- IMPORTANT: IF YOU WISH TO VOTE FOR A RESOLUTION, TICK THE APPROPRIATE BOX MARKED "FOR". IF YOU WISH TO VOTE AGAINST THE RESOLUTION, TICK THE BOX MARKED "AGAINST". Failure to complete any or all the boxes will entitle your proxy to cast his vote at his discretion. Your proxy will also be entitled to vote at his discretion on any resolution properly put to the Meeting other than those referred to in the Notice convening the Meeting.
- This form of proxy must be signed by you or your attorney duly authorised in writing or, in the case of a corporation, must be either under its common seal or under the hand of an officer or attorney duly authorised.
- In the case of joint holders the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holder(s), and for this purpose seniority will be determined by the order in which the names stand in the Register of Members.
- To be valid, this form of proxy, together with any power of attorney or other authority, if any, which it is signed or a notarially certified copy thereof, must be deposited at the Company's principal office in Hong Kong at 28th Floor, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong not less than 48 hours before the time for the holding of the Meeting.
- The proxy need not be a member of the Company but must attend the Meeting in person to represent you.
- Completion and delivery of the form of proxy will not preclude you from attending and voting at the Annual General Meeting if you so wish.

* for identification purpose only