



First Quarterly Report
2004-2005

EEG

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

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

EMPEROR ENTERTAINMENT GROUP LIMITED (STOCK CODE: 8078)

MANAGEMENT DISCUSSION AND ANALYSIS

For the three months ended 30th June, 2004 ("Period"), the Company and its subsidiaries (collectively referred to as the "Group") had shown remarkable results. During the Period, net profit of the Group increased substantially to approximately HK\$25.4 million, while turnover almost doubled to approximately HK\$73.5 million as compared with the last corresponding period. The significant increase was mainly attributable to contribution from the film and television programme production and distribution sector.

OPERATION REVIEW

Music Production and Distribution

The music production and distribution segment of the Group continued its steady growth. It contributed around HK\$18.8 million and HK\$9.5 million to the Group's turnover and gross profit respectively. During the Period, the Group released 15 albums (as compared with 22 albums in the last corresponding period).

Film and Television Programme Production and Distribution

The visual entertainment division of the Group produced feature films, television series and other programmes aimed at three distinct markets: local, Asian and international. During the Period, this business sector's contribution to the Group's turnover amounted to approximately HK\$42.6 million as compared with HK\$5.0 million in the previous corresponding period and recorded a gross profit of approximately HK\$21.5 million. The turnover and gross profit are mainly attributable to the overseas distribution of "The Medallion" and "The Twins Effect". "The Twins Effect II", another major production of the Group, had just been released. There were another three films in various stages of production. The management expected the films to bring more positive contributions to the results of the Group.

Other than self-invested film production, the Group also distributed films produced by other movie companies. The Group was developing its own video game division to take advantage of the latest development in home entertainment technology and the introduction of new products for the digital platform. This would open up more income streams for the Group.

Artiste Management

The Group recorded satisfactory performance in this sector during the Period. Income from artiste management soared by 45% to approximately HK\$11.3 million as compared with the last corresponding period.

The Group continued to source talented and promising new artistes. During the Period, two new artistes were recruited, thus making a total of 38 artistes under the Group as at the end of the Period. The "EEG Singing Contest 2004" which was to be co-organised with Television Broadcasts Limited was scheduled to be held in the 2nd quarter of the financial year. The first batch of over 100 students would be graduated from Beijing Zhongbei Emperor School of Performance Arts, a college set up by the Group in Beijing, by the end of September 2004. The management expected to be able to recruit more promising new artistes.

Event Production

A slight profit in this business sector was recorded. The Group jointly organised Jenny Tsang's concert with a third party during the Period, while the concert of Whitney Houston, a famous international singer, was co-organised by the Group shortly after the end of the Period.

PROSPECTS

Looking ahead, with the introduction of Closer Economic Partnership Arrangement (CEPA) and the relaxation of the PRC regulations in the entertainment business, the management saw great potentials in the PRC market, and would continue to identify appropriate projects in the PRC. The Group had already begun several joint film production projects with overseas partners and would look for further international collaborations in the future. The management believed that such collaboration, coupled with the Group's expertise and experience in the industry, would enable the Group to maintain a competitive edge and increase its market share despite the keen competition in the entertainment industry.

RESULTS

The board of directors of the Company (the "Board") announces the unaudited consolidated results of the Group for the Period together with the comparative unaudited figures for the corresponding period in 2003 as follows:

	Notes	Three months ended 30th June,	
		2004 HK\$'000	2003 HK\$'000
Turnover	2	73,495	37,014
Other operating income		2,917	1,398
Cost of music production and distribution		(9,241)	(14,692)
Cost of film and television programme production and distribution		(21,118)	(3,911)
Distribution costs		(3,098)	(5,665)
Administrative expenses		(14,378)	(11,333)
Profit from operations		28,577	2,811
Finance costs		(516)	(1,409)
Profit before taxation		28,061	1,402
Taxation	3	(2,801)	–
Profit before minority interests		25,260	1,402
Minority interests		183	11
Net profit for the period		25,443	1,413
Earnings per share	4		
– basic		9.79 cents	0.54 cent
– diluted		N/A	N/A

Notes: (Continued)

3. Taxation

The charge represents Hong Kong Profits Tax calculated at 17.5% of the estimated assessable profits for the Period.

No provision for Hong Kong Profits Tax had been made in the corresponding period in 2003 as the estimated assessable profits for that period were wholly absorbed by tax losses brought forward.

No provision for income tax in respect of operations in overseas has been made as the Group has no assessable profits in the respective jurisdictions for both periods.

4. Earnings per share

The calculation of basic earnings per share for the Period is based on the unaudited consolidated net profit for the Period of approximately HK\$25,443,000 (2003: HK\$1,413,000) and the 260,000,000 ordinary shares in issue during both periods.

Diluted earnings per share has not been presented as the Company had no dilutive potential ordinary shares for both periods.

5. Movement of reserves

Analyses of movements in the reserves of the Group are as follows:

	Share premium HK\$'000	Contributed surplus HK\$'000	Special reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st April, 2003	105,614	91,063	75,000	(224)	(183,704)	87,749
Exchange differences on translation of overseas operations not recognised in the unaudited consolidated income statement	-	-	-	7	-	7
Net profit for the period	-	-	-	-	1,413	1,413
At 30th June, 2003	<u>105,614</u>	<u>91,063</u>	<u>75,000</u>	<u>(217)</u>	<u>(182,291)</u>	<u>89,169</u>
At 1st April, 2004	105,614	91,063	75,000	(226)	(163,048)	108,403
Exchange differences on translation of overseas operations not recognised in the unaudited consolidated income statement	-	-	-	25	-	25
Net profit for the period	-	-	-	-	25,443	25,443
At 30th June, 2004	<u>105,614</u>	<u>91,063</u>	<u>75,000</u>	<u>(201)</u>	<u>(137,605)</u>	<u>133,871</u>

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the Period (2003: Nil).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 30th June, 2004, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of the Company as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

(a) Long position in shares of the Company

Name of director	Nature of interests	Number of ordinary shares held	Percentage holding
Ms. Luk Siu Man, Semon ("Ms. Semon Luk") (Note)	Family	192,182,000	73.92%

Note: The shares were registered in the name of Surplus Way. The entire issued share capital of Surplus Way was held by Jumbo Wealth Limited ("Jumbo Wealth") on trust for The A & A Unit Trust. The A & A Unit Trust was 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 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 and a director of the Company) was also deemed to be interested in the above 192,182,000 shares held by Surplus Way.

(b) Long positions in shares of associated corporations

Name of director	Nature of interests	Number of ordinary shares held	Percentage holding
Surplus Way (Note (1))	Family	1	100%
Jumbo Wealth (Note (1))	Family	1	100%
Charron Holdings Limited ("Charron") (Note (2))	Family	1	100%
Emperor International Holdings Limited ("Emperor International") (Note (2))	Family	64,567,475	74.79%

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SECURITIES *(Continued)*

Notes:

- (1) Surplus Way was the registered owner of 192,182,000 shares, representing 73.92% of the issued share capital of the Company. The entire issued share capital of Surplus Way was held by Jumbo Wealth on trust for The A & A Unit Trust. The A & A Unit Trust was 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 share capital of Surplus Way. By virtue of the aforesaid interests of Mr. Albert Yeung, Ms. Semon Luk (spouse of Mr. Albert Yeung and a director of the Company) was also deemed to be interested in the share capital of Surplus Way and Jumbo Wealth respectively.
- (2) Charron was the registered owner of 64,567,475 shares in Emperor International. The entire issued share capital of Charron was held by Jumbo Wealth on trust for The A & A Unit Trust. By virtue of the interests of The A & A Unit Trust in Surplus Way and Charron, both Charron and Emperor International were associated corporations of the Company. Mr. Albert Yeung, as founder of the Trust, was deemed to be interested in the share capital of Charron and Emperor International respectively. By virtue of the aforesaid interests of Mr. Albert Yeung, Ms. Semon Luk (spouse of Mr. Albert Yeung and a director of the Company) was also deemed to be interested in the share capital of Charron and Emperor International respectively.

Save as disclosed above, as at 30th June, 2004, none of the directors or chief executives of the Company had any interests or short positions in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of the Company as referred to in Rule 5.46 of the GEM Listing Rules.

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

On 30th November, 2000, the Company adopted a share option scheme ("Share Option Scheme") which will expire on 30th November, 2010 for the primary purpose of providing incentives to the participants. Under the 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 prices 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.

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

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

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

As at 30th June, 2004, the Company had not granted any right to subscribe for equity or debt securities of the Company to any director or chief executive of the Company or their spouse or children under 18 years of age.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as known to the directors of the Company, as at 30th June, 2004, the persons or corporations (other than the directors or chief executives of the Company) who had interests and short positions in the shares, underlying shares and debentures of the Company as recorded in the register required to be kept under Section 336 of the SFO or as otherwise notified to the Company and the Stock Exchange were as follows:

Long positions in shares of the Company

Name	Capacity/ Nature of interests	Number of ordinary shares held	Percentage holding
Surplus Way (Note (1))	Beneficial	192,182,000	73.92%
Jumbo Wealth (Note (1))	Trustee	192,182,000	73.92%
GZ Trust Corporation ("GZ Trust") (Note (1))	Trustee	192,182,000	73.92%
Mr. Albert Yeung (Note (1))	Founder of the Trust	192,182,000	73.92%
South China Securities Limited	Beneficial	20,772,000	7.99%
South China Brokerage Company Limited	Interest in a controlled corporation	20,772,000	7.99%
East Hill Development Limited	Interest in a controlled corporation	20,772,000	7.99%

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

(Continued)

Long positions in shares of the Company (Continued)

Name	Capacity/ Nature of interests	Number of ordinary shares held	Percentage holding
Tek Lee Finance and Investment Corporation Limited	Interest in a controlled corporation	20,772,000	7.99%
South China (BVI) Limited	Interest in a controlled corporation	20,772,000	7.99%
South China Holdings Limited	Interest in a controlled corporation	20,772,000	7.99%
Bannock Investment Limited	Interest in a controlled corporation	20,772,000	7.99%
Eartrade Investments Limited	Interest in a controlled corporation	20,772,000	7.99%
Parkfield Holdings Limited	Interest in a controlled corporation	20,772,000	7.99%
Ronastar Investments Limited	Interest in a controlled corporation	20,772,000	7.99%
Fung Shing Group Limited	Interest in a controlled corporation	20,772,000	7.99%
Ms. Cheung Choi Ngor	Persons acting in concert	20,772,000	7.99%
Mr. Richard Howard Gorges	Persons acting in concert	20,772,000	7.99%
Mr. Ng Hung Sang, Robert ("Mr. Robert Ng")	Persons acting in concert	20,772,000	7.99%
Ms. Ng Lai King, Pamela ("Ms. Pamela Ng") (Note (2))	Spouse	20,772,000	7.99%

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

(Continued)

Long positions in shares of the Company *(Continued)*

Notes:

- (1) The shares were registered in the name of Surplus Way. The entire issued share capital of Surplus Way was held by Jumbo Wealth on trust for The A & A Unit Trust. The A&A Unit Trust was 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 and held the entire issued share capital of Jumbo Wealth on trust for GZ Trust as trustee of the Trust. The above shares were the same shares as set out under section (a) of "Directors' and Chief Executives' Interests and Short Positions in Securities" above.
- (2) Ms. Pamela Ng, spouse of Mr. Robert Ng, was also deemed to be interested in the 20,772,000 shares in which Mr. Robert Ng was interested by virtue of the SFO.

Save as disclosed above, as at 30th June, 2004, the directors of the Company were not aware of any other person or corporation (other than the directors or chief executives of the Company) who had any interests or short positions in the shares, underlying shares or debentures of the Company as recorded in the register required to be kept under Section 336 of the SFO or as otherwise notified to the Company and the Stock Exchange.

COMPETING INTERESTS

Dr. Chan Kong Sang, Jackie ("Dr. Jackie Chan"), a non-executive director of the Company as at 30th June, 2004, is a director and shareholder of Climbing High Productions Limited, Jackie & Willie Productions Limited, Jackie & Willie Enterprises Limited and Filmtech Lighting Services Limited and also 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. Dr. Jackie Chan resigned as a non-executive director of the Company with effect from 19th July, 2004.

The Trust, a discretionary trust set up by Mr. Albert Yeung, a management shareholder of the Company, indirectly held 50% of the shareholding of JCE Movies Limited ("JCE"), a company engaged in the production and distribution of movies. The Trust also indirectly held 100% interest in Prime Time (International) Entertainment Limited ("Prime Time"), a company engaged in the business of television programme production and artiste management. The Trust also indirectly held 79% shareholding of Great Creator Limited trading as Cool Factory Event Marketing and Talent Agency ("Cool Factory") which engaged in the business, inter alia, of event production. The businesses of JCE, Prime Time and Cool Factory may constitute competition with the business of the Group. By virtue of the Trust's interest in the aforesaid businesses, Ms. Semon Luk, spouse of Mr. Albert Yeung, is also deemed to be interested in the businesses. 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, her aforesaid deemed interest in the businesses of JCE, Prime Time and Cool Factory will not materially affect the Group's business.

COMPETING INTERESTS *(Continued)*

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

AUDIT COMMITTEE

An audit committee was established on 30th November, 2000 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The two independent non-executive directors of the Company, namely, Mr. Wong Ching Yue and Mr. Tso Hon Sai, Bosco have been appointed as the members of the audit committee.

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

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

By Order of the Board
Luk Siu Man, Semon
Chairperson

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Hong Kong, 12th August, 2004

Executive Directors:

Wong Chi Fai
Fan Man Seung, Vanessa
Ng Sui Wan alias Ng Yu (*Chief Executive Officer*)

Independent Non-executive Directors:

Wong Ching Yue
Tso Hon Sai, Bosco

Non-executive Directors:

Luk Siu Man, Semon (*Chairperson*)
So Shu Fai