



Half-Yearly Report

2004-2005

EEG

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

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.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of Emperor Entertainment Group Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (“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 ("Quarterly Period") and six months ("Half Yearly Period") ended 30th September, 2004, the Company and its subsidiaries (collectively referred to as the "Group") recorded a net loss of approximately HK\$7.4 million and a net profit of HK\$18.0 million respectively, as compared with a net profit of approximately HK\$15.3 million and HK\$16.8 million for the last corresponding periods. During the same periods, turnover of the Group amounted to approximately HK\$61.5 million and HK\$134.9 million respectively, as compared with approximately HK\$204.1 million and HK\$241.2 million for the previous corresponding periods.

OPERATION REVIEW

Music Production and Distribution

During the Half Yearly Period, the Group released 38 albums (as compared with 29 albums in the previous corresponding period), out of which 35 albums were for the Group's own artistes and three albums were for other artistes. Owing to the keen competition and the serious piracy problem within the industry, turnover from this business sector had dropped. The Group, however, managed to sustain the profit of this business sector through cost control measures, making a satisfactory contribution of approximately HK\$18.1 million to the Group's gross profit.

Film and Television Programme Production and Distribution

During the Half Yearly Period, this business sector contributed substantially to both the Group's turnover and gross profit, amounting to approximately HK\$77.2 million and HK\$22.0 million respectively. This was mainly attributable to the licensing of "The Medallion" overseas and the release of "The Twins Effect II", a major film production of the Group, the box-office of which had been encouraging. There were another five films in various stages of production.

Apart from self-invested films, the Group also distributed films produced by other movie-making companies, such as "Enter the Phoenix" and "New Police Story". This had broadened the income streams of the Group.

Artiste Management

The Group recorded remarkable performance in this sector during the Half Yearly Period. Income from this sector soared by almost 50% to HK\$21.5 million during the Half Yearly Period as compared with the last corresponding period.

The success was due to the Group's ability to source and promote talented and promising new artistes. Six new artistes joined the Group during the Half Yearly Period, out of which three were recruited amongst the participants of the "EEG Singing Contest 2004", a singing contest co-organised by the Group and Television Broadcasts Limited in the 2nd quarter of the financial year. As at the end of the Half Yearly Period, there had been 41 artistes under the Group's management. With the strong artistes' base, the Group expected this sector to continue to flourish.

Event Production

During the Half Yearly Period, the Group jointly organised Jenny Tsang's concert and Whitney Houston's concert with third parties and this sector had made slight profit. In the coming quarter, three other concerts were to be jointly organised with third parties. The management expected these concerts to bring further contributions to the Group.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

There was no material change in the Group's sources of fund to finance its operation and capital expenditure, as well as its capital structure as disclosed in the Group's annual report for the year ended 31st March, 2004.

As at 30th September, 2004, the Group had current ratio (based on current assets over current liabilities) of 1.6 as compared with that of 1.5 in the preceding financial year. Current assets amounted to approximately HK\$298.6 million, comprising 61% film rights, inventories and record masters, 29% trade receivables, prepayments and other receivables and 10% bank balances and cash held in hand (which were mainly denominated in U.S. dollars, Hong Kong dollars and Reminbi). Current liabilities amounted to approximately HK\$182.8 million, comprising 62% trade payables, other payables and accruals and tax payable, and 38% unsecured loan from Surplus Way Profits Limited ("Surplus Way"), the substantial shareholder of the Company (which was denominated in Hong Kong dollars with interest at the Hong Kong prime rate and had no fixed repayment term).

On the same date, advances from minority shareholders were approximately HK\$1.9 million which were mainly denominated in Hong Kong dollars, unsecured, non-interest bearing and had no fixed repayment term.

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

Save as disclosed above, the Group had no other external borrowings as at the end of the Half Yearly Period. With the borrowings and bank and cash held in hand mainly denominated in U.S. dollars, Hong Kong dollars and Reminbi, the management expected no significant exposure to foreign exchange rate fluctuation in the coming year.

As at the end of the Half Yearly Period, the Group's gearing ratio (expressed as a percentage of total liabilities over total assets) improved by 3%, from 62% in the preceding financial year to 59%.

Together with the cash flow generated by the operation of the Group in its ordinary course of business and its existing loan facility, the board of directors (the "Board") of the Company expected the Group to have sufficient working capital for its operation.

COMMITMENTS

As at 30th September, 2004, the Group had total commitments of approximately HK\$59.8 million, which mainly comprised artiste fees and film production costs.

NUMBER AND REMUNERATION OF EMPLOYEES

With the expansion of the Group's business, as at 30th September, 2004, the Group's number of employees had increased to 147 (as compared with 112 in the preceding financial year) and total staff costs for the Half Yearly Period was approximately HK\$19.2 million. All employees were under the remuneration policy of fixed monthly salary with discretionary bonus. The Company also has a share option scheme, details of which are set out in the section headed "Share Option Scheme and Directors' and Chief Executives' Rights to Acquire Shares or Debentures" on page 16.

PROSPECTS

With the Group's strong artistes base and solid repertoire, coupled with the gradual maturity of the Group's entertainment businesses, the management is optimistic towards the future performance of the Group. The management will continue to take steps to sustain its competitive edge, while at the same time look for good business opportunities to broaden the Group's income stream.

RESULTS

The Board announces the unaudited consolidated results of the Group for the Quarterly Period and the Half Yearly Period together with the comparative unaudited figures for the corresponding periods in 2003 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and six months ended 30th September, 2004

		Three months ended 30th September, 2004 (unaudited) HK\$'000		Six months ended 30th September, 2004 (unaudited) HK\$'000	
	Notes	2003 (unaudited) HK\$'000	2003 (unaudited) HK\$'000	2003 (unaudited) HK\$'000	2003 (unaudited) HK\$'000
Turnover	3 & 4	61,454	204,146	134,949	241,160
Other operating income		4,975	1,729	7,892	3,127
Cost of music production and distribution		(7,975)	(7,797)	(17,216)	(22,489)
Cost of film and television programme production and distribution		(34,080)	(148,802)	(55,198)	(152,713)
Distribution costs		(15,257)	(19,226)	(18,355)	(24,891)
Administrative expenses		(14,122)	(13,811)	(28,500)	(25,144)
(Loss) profit from operations	5	(5,005)	16,239	23,572	19,050
Finance costs	6	(546)	(1,582)	(1,062)	(2,991)
Share of results of associate		-	-	-	-
(Loss) profit before taxation		(5,551)	14,657	22,510	16,059
Taxation	7	(2,174)	-	(4,975)	-
(Loss) profit before minority interests		(7,725)	14,657	17,535	16,059
Minority interests		330	683	513	694
Net (loss) profit for the period		(7,395)	15,340	18,048	16,753
(Loss) earnings per share	8				
– basic		(2.84) cents	5.90 cents	6.94 cents	6.44 cents
– diluted		N/A	N/A	N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th September, 2004

	Notes	30th September, 2004 (unaudited) HK\$'000	31st March, 2004 (audited) HK\$'000
Non-current assets			
Property, plant and equipment	9	3,495	3,390
Prepayments and other receivables		9,876	13,007
Film rights	9	2,030	4,828
		15,401	21,225
Current assets			
Film rights	9	179,029	184,325
Inventories and record masters		3,410	4,765
Trade receivables	10	31,626	20,762
Prepayments and other receivables		55,830	30,852
Tax recoverable		-	405
Bank balances and cash		28,710	30,484
		298,605	271,593
Current liabilities			
Trade payables	11	14,451	12,375
Other payables and accrued charges		94,835	111,454
Tax payable		4,571	-
Amount due to ultimate holding company		68,914	49,930
Amount due to a related company		-	4,228
Bank overdrafts		16	368
		182,787	178,355
Net current assets		115,818	93,238
Total assets less current liabilities		131,219	114,463
Minority interests		222	735
Non-current liability			
Loans from minority shareholders of subsidiaries		1,916	2,725
Net assets		129,081	111,003
Capital and reserves			
Share capital		2,600	2,600
Reserves		126,481	108,403
Shareholders' funds		129,081	111,003

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30th September, 2004

	Share capital HK\$'000	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	2,600	105,614	91,063	75,000	(224)	(183,704)	90,349
Share of reserve by a minority shareholder of a subsidiary	-	-	-	-	12	-	12
Exchange differences on translation of overseas operations not recognised in the unaudited consolidated income statement	-	-	-	-	993	-	993
Net profit for the period	-	-	-	-	-	16,753	16,753
At 30th September, 2003	<u>2,600</u>	<u>105,614</u>	<u>91,063</u>	<u>75,000</u>	<u>781</u>	<u>(166,951)</u>	<u>108,107</u>
At 1st April, 2004	2,600	105,614	91,063	75,000	(226)	(163,048)	111,003
Exchange differences on translation of overseas operations not recognised in the unaudited consolidated income statement	-	-	-	-	30	-	30
Net profit for the period	-	-	-	-	-	18,048	18,048
At 30th September, 2004	<u>2,600</u>	<u>105,614</u>	<u>91,063</u>	<u>75,000</u>	<u>(196)</u>	<u>(145,000)</u>	<u>129,081</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September, 2004

	Six months ended 30th September, 2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000
Net cash (used in) from operating activities	(17,337)	162,283
Net cash used in investing activities	(1,199)	(765)
Net cash from (used in) financing activities	17,114	(177,230)
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(1,422)	(15,712)
Cash and cash equivalents at beginning of the period	30,116	77,646
Effect of foreign exchange rate changes	-	779
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	28,694	62,713
	<hr/> <hr/>	<hr/> <hr/>
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	28,710	62,713
Bank overdrafts	(16)	-
	<hr/>	<hr/>
	28,694	62,713
	<hr/> <hr/>	<hr/> <hr/>

Notes:

1. General

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

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

Notes: (Continued)

2. Basis of Preparation of Financial Statements and Principal Accounting Policies

The condensed consolidated financial statements have been prepared in accordance with the Statement of Standard Accounting Practice No. 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants (formerly known as the Hong Kong Society of Accountants) and with the applicable disclosure requirements set out in Chapter 18 of the GEM Listing Rules.

The condensed consolidated financial statements have been prepared under the historical cost convention.

The principal accounting policies adopted in preparing the unaudited consolidated financial statements are consistent with those followed in the Group's annual financial statements for the year ended 31st March, 2004.

3. Turnover

An analysis of the Group's turnover is as follows:

	Three months ended 30th September,		Six months ended 30th September,	
	2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000	2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000
Music production and distribution				
– sales of albums	8,789	11,612	21,192	28,238
– licence income	7,822	4,989	14,171	12,651
	16,611	16,601	35,363	40,889
Production and distribution of films and television programmes and licensing of the corresponding distribution rights	34,617	180,955	77,239	185,913
Artiste management fee income	10,218	6,590	21,507	14,358
Event production				
– share of net income from jointly organised event	8	–	840	–
	61,454	204,146	134,949	241,160

Notes: (Continued)

4. Segment Information

An analysis of the Group's business segment on which the Group reports its primary segment information is presented as follows:

	Six months ended 30th September,		2003	
	2004			
	Turnover	Contribution	Turnover	Contribution
	(unaudited)	to net	(unaudited)	to net
	HK\$'000	profit for	(unaudited)	profit for
	HK\$'000	the period	(unaudited)	the period
	HK\$'000	(unaudited)	HK\$'000	(unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Music production and distribution	35,363	7,567	40,889	6,533
Film and television programme production, distribution and licensing	77,239	(803)	185,913	6,913
Artiste management	21,507	17,455	14,358	7,217
Event production	840	1,638	–	184
	134,949	25,857	241,160	20,847
Other operating income not allocated to major activities		282		253
Unallocated corporate expenses		(2,567)		(2,050)
Profit from operations		23,572		19,050
Finance costs		(1,062)		(2,991)
Share of results of associate		–		–
Profit before taxation		22,510		16,059
Taxation		(4,975)		–
Profit after taxation		17,535		16,059
Minority interests		513		694
Net profit for the period		18,048		16,753

Notes: (Continued)

5. (Loss) Profit from Operations

	Three months ended 30th September,		Six months ended 30th September,	
	2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000	2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000
(Loss) profit from operations has been arrived at after charging:				
Amortisation of film rights charged to cost of film and television programme production and distribution	33,883	146,507	54,692	150,224
Depreciation of property, plant and equipment	438	277	834	533

6. Finance Costs

	Three months ended 30th September,		Six months ended 30th September,	
	2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000	2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000
Interest on:				
– bank borrowings	-	615	-	1,633
– other borrowings	546	1,347	1,062	2,755
Total borrowing costs	546	1,962	1,062	4,388
Less: Amount capitalised in film rights	-	(380)	-	(1,397)
	546	1,582	1,062	2,991

Notes: (Continued)

7. Taxation

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

The Group have no significant deferred taxation in respect of the Half Yearly Period and the corresponding period in 2003. The deferred tax asset relating to tax losses has not been recognised, as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

8. (Loss) Earnings per Share

The calculation of basic (loss) earnings per share is based on the Group's net loss of approximately HK\$7,395,000 for the Quarterly Period and the net profit of approximately HK\$18,048,000 for the Half Yearly Period (the corresponding periods in 2003: net profit of approximately HK\$15,340,000 and HK\$16,753,000) and the 260,000,000 ordinary shares in issue during the periods.

Diluted (loss) earnings per share have not been presented for either period as the Company had no dilutive potential ordinary shares of these periods.

9. Movements in Property, Plant and Equipment and Film Rights

During the Half Yearly Period, the Group acquired property, plant and equipment at a cost of approximately HK\$1,323,000, disposed of property, plant and equipment with aggregate net book value of approximately HK\$392,000 and spent approximately HK\$46,600,000 on cost of film rights.

Notes: (Continued)

10. 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:

	30th September, 2004 (unaudited) HK\$'000	31st March, 2004 (audited) HK\$'000
Current	20,059	10,608
Overdue		
0 – 30 days	3,987	4,491
31 – 60 days	2,125	1,311
61 – 90 days	883	821
over 90 days	4,572	3,531
	31,626	20,762

11. Trade Payables

The following is an aged analysis of trade payables:

	30th September, 2004 (unaudited) HK\$'000	31st March, 2004 (audited) HK\$'000
Current	4,785	5,681
Overdue		
0 – 30 days	2,908	1,822
31 – 60 days	2,941	1,336
61 – 90 days	60	478
over 90 days	3,757	3,058
	14,451	12,375

Notes: (Continued)

12. Commitments

(a) Capital commitment

At the balance sheet date, the Group had an unaudited commitment of approximately HK\$162,000 (At 31st March, 2004 (audited): Nil) authorised but not contracted for in respect of acquisition of property, plant and equipments.

(b) Operating lease commitments

At the balance sheet date, the Group had unaudited commitments of approximately HK\$1,285,000 (At 31st March, 2004 (audited): HK\$3,320,000) for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due within one year. The lease payments are fixed and no arrangements have been entered into for contingent rental payments.

(c) Other commitments

At the balance sheet date, the Group was committed to pay an unaudited aggregate sum of approximately HK\$18,047,000 (At 31st March, 2004 (audited): HK\$20,100,000) and approximately HK\$40,281,000 (At 31st March, 2004 (audited): HK\$23,884,000) respectively in respect of artiste fees and film production costs.

13. Related Party Transactions

During the Half Yearly Period, the Group had transactions with related parties as follows:

	Six months ended 30th September,	
	2004	2003
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Distribution and promotion commission income received	1,732	—
Advertising and promotion expenses paid	220	475
Corporate secretarial fee paid	160	160
Fees paid for back office support services (including accounting, tax and financial services, internal auditing, human resources and administrative services)	166	174
Fees paid for other professional services (including information technology, legal and secretarial services)	263	344
Interest paid to ultimate holding company	1,062	2,755
Management fees and air-conditioning charges paid	341	348
Operating lease rentals paid	1,043	1,084

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

DIVIDEND

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

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

As at 30th September, 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.

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

(b) Long positions in shares of associated corporations

Name of associated corporation	Nature of interests	Number of ordinary share(s) held	Percentage holding
Surplus Way <i>(Note (1))</i>	Family	1	100%
Jumbo Wealth <i>(Note (1))</i>	Family	1	100%
Charron Holdings Limited ("Charron") <i>(Note (2))</i>	Family	1	100%
Emperor International Holdings Limited ("Emperor International") <i>(Note (2))</i>	Family	64,567,475	74.79%

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 September, 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

The Company adopted a share option scheme (the "Old Scheme") on 30th November, 2000 which would expire on 30th November, 2010. On 26th August, 2004, the shareholders of the Company approved the termination of the Old Scheme and the adoption of a new share option scheme (the "New Scheme") which became effective from 11th November, 2004 (the "Adoption Date").

The New Scheme was adopted for the primary purpose of providing incentives or rewards to participants thereunder ("Participant(s)") including the directors and eligible employees of the Group for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that were valuable to the Group or any entity in which the Group held an equity interest.

Under the New Scheme, the directors of the Company are authorised, at any time within ten years after the Adoption Date, to grant options to any Participants to subscribe for shares in the Company at a price not less than the highest of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the Company's shares for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a Company's share. The total number of shares in respect of which options may be granted under the New Scheme cannot exceed 10% of the total number of shares in issue on the Adoption Date. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option scheme of the Company, if any, cannot exceed 30% of the total number of shares in issue from time to time. The number of shares in respect of which options may be granted to any Participant shall not exceed 1% of the total number of shares in issue in any 12-month period. An option may be exercised at any time within ten years from the date of issue of the relevant options, where the acceptance date should not be later than 28 days from the date of the offer. A nominal consideration of HK\$1 is payable on acceptance of the grant of options.

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

As at 30th September, 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 September, 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%
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%
Earntrade 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%

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
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%

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 September, 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 former non-executive director of the Company, 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.

COMPETING INTERESTS *(Continued)*

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.

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 September, 2004 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The three independent non-executive directors of the Company, namely, Mr. Wong Ching Yue, Mr. Chu Kar Wing and Mr. Wong Tak Ming, Gary have been appointed as the members of the audit committee.

CORPORATE GOVERNANCE

The Company has complied throughout the Half Yearly Period with the board practice and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules, except that full board meeting was not held every three months.

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

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

By Order of the Board
Luk Siu Man, Semon
Chairperson

Hong Kong, 11th November, 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
Chu Kar Wing
Wong Tak Ming, Gary

Non-executive Directors:

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