

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

Interim Report 2005-2006



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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 ("Quarterly Period") and six months ("Half Yearly Period") ended 30th September, 2005, the Company and its subsidiaries (collectively referred to as the "Group") recorded net profits of approximately HK\$10.8 million and HK\$5.5 million respectively, as compared with a net loss of approximately HK\$7.4 million and a net profit of approximately HK\$18.0 million for the last corresponding periods. Turnover of the Group amounted to approximately HK\$54.1 million for the Quarterly Period (2004: HK\$66.1 million) and HK\$81.3 million for the Half Yearly Period (2004: HK\$140.3 million).

OPERATION REVIEW

Music Production and Distribution

The segment recorded a loss of approximately HK\$1.0 million in the six-month period (2004: a profit of approximately HK\$7.6 million), as a result of keen industry competition and severe piracy issues including illegal downloading from the Internet. Segment turnover amounted to approximately HK\$28.4 million for the Half Yearly Period (2004: HK\$37.5 million).

During the Half Yearly Period, the Group released 37 albums (2004: 38), 34 from the Group's own artistes and 3 from other artistes.

Film and Television Programme Production and Distribution

The segment posted a loss of approximately HK\$5.3 million (2004: HK\$0.8 million) during the Half Yearly Period, with a turnover of approximately HK\$22.1 million (2004: HK\$77.2 million). The drop in sales was due to the decrease of licensing income. In the period, the Group received income from releasing "**Bug Me Not!**", licensing "**The Medallion**", "**The Twins Effect II**" and "**6AM**" and distributing "**New Police Story**", "**House of Fury**" and "**The Myth**".

Following the release of "**Bug Me Not!**" in July, the Group's Emperor Motion Picture ("EMP") distributed "**The Myth**" in Hong Kong and other Asian regions in September. Starring Jackie Chan, Kim Hee Seon, Tony Leung and Mallika Sherawat, and directed by Stanley Tong, "**The Myth**" was particularly well received in China where it rapidly became one of the top grossing theatrical films of the year with box-office receipts approaching the RMB 100-million mark.

On the international front, EMP participated in Toronto International Film Festival in September where "**The Myth**" held its world premiere in the presence of the stars and the director of the film. Other titles from the EMP line-up continue to attract interest from international distributors.

OPERATION REVIEW *(Continued)*

Film and Television Programme Production and Distribution *(Continued)*

During the Half Yearly Period, EMP continued the post-production of the “**A Chinese Tall Story**”, starring Charlene Choi, Nicholas Tse, and directed by Jeff Lau. The film is expected to be launched in December throughout Asia.

Artiste Management

The Group recorded income of approximately HK\$14.5 million (2004: HK\$21.5 million) and a profit of approximately HK\$8.6 million (2004: HK\$17.5 million) from this segment.

The Group has co-organised the “EEG Singing Contest 2005” with Television Broadcasts Limited during the period. The Group managed a total of 68 artistes (2004: 41) at the end of the Half Yearly Period, including three who were recruited from the singing contest. Seven other artistes joined the Group during the Half Year Period. With the strong artiste base, the Group expected continual growth of this segment and further expansion in market share.

Event Production

During the Half Yearly Period, this segment recorded remarkable results. Revenue increased by three times to approximately HK\$16.2 million (2004: HK\$4.0 million) while a profit amounted to approximately HK\$7.4 million (2004: HK\$1.6 million).

The Group had co-organised with third parties four concerts – featuring Robin Gibb, Deanie Yip, Paula Tsui and Sun Yanzi – which contributed approximately HK\$13.4 million to segment turnover. The 23-session Paula Tsui concert was in particular well received by both the media and the audience, contributing to the surge in income and profit in the segment.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

There is no material change in the Group’s sources of fund to finance its operation and capital expenditure, as well as capital structure as disclosed in the Group’s annual report for the year ended 31st March, 2005.

As at 30th September, 2005, 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\$259.6 million, comprising 49% film rights, inventories and record masters, 32% trade receivables, prepayments and other receivables and 19% 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\$158.0 million, comprising 83% trade payables, other payables and accruals, dividend payable and tax payable, and 17% unsecured loan from Surplus Way Profits Limited (“Surplus Way”) (which was denominated in Hong Kong dollars with interest at the Hong Kong prime rate and had no fixed repayment term).

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

As at 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.

Other than 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 Group experienced no significant foreign exchange rate fluctuation during the Half Yearly Period.

At the end of the Half Yearly Period, the Group's gearing ratio (expressed as a percentage of total borrowings over net asset value) reduced from 77% in the preceding financial year to 25%, which was mainly due to partial repayment of advances from Surplus Way for the Half Yearly Period.

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") expected the Group to have sufficient working capital for its operation.

COMMITMENTS

As at 30th September, 2005, the Group had total commitments of approximately HK\$63.6 million, which comprised HK\$7.0 million for operating lease commitments, HK\$20.4 million for artiste fees, HK\$26.9 million for film production costs and HK\$9.3 million for acquisition of rights of distribution and exploitation in a film.

NUMBER AND REMUNERATION OF EMPLOYEES

With the expansion of the Group's business, as at 30th September, 2005, the Group's number of employees had increased to 170 (At 31st March, 2005: 161) and total staff costs for the period was approximately HK\$21.3 million. All employees are under the remuneration policy of fixed monthly salary with discretionary bonus. The Company also has a share option scheme for providing incentive to full-time employees of the Group. No options were granted or outstanding during the Half Yearly Period.

PROSPECTS

The management is optimistic that the Group's strong talent bank will support the growth of all its business segments. The Group plans to establish branches in the People's Republic of China (the "PRC"), with the first to be set up in Beijing, followed by Guangzhou and Shanghai. The new branches will be responsible for managing mainland artistes and for content production.



PROSPECTS *(Continued)*

EMP schedules to release the much-awaited **“A Chinese Tall Story”** during the Christmas period. The film, together with **“The Myth”**, are expected to achieve strong sales in international markets. The Group continues to work closely with many local filmmakers to develop film projects and is looking to form joint-production ventures with Mainland Chinese companies to tap the rapidly growing PRC market.

Meanwhile, the Group has planned to organise more concerts in coming future by working with artistes such as Leon Lai, Joey Yung, Luciano Pavarotti and Twins. The management will also host more events and concerts for overseas artistes to further enrich its income stream.

The Board announces the unaudited consolidated financial statements of the Group for the Quarterly Period and the Half Yearly Period together with the comparative figures for the corresponding periods in 2004 as set out below.

These consolidated financial statements have not been audited nor reviewed by the Company's auditors, Deloitte Touche Tohmatsu, but have been reviewed by the audit committee of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and six months ended 30th September, 2005

	Notes	Three months ended 30th September,		Six months ended 30th September,	
		2005 (unaudited) HK\$'000	2004 (unaudited) HK\$'000	2005 (unaudited) HK\$'000	2004 (unaudited) HK\$'000
Turnover	3 & 4	54,101	66,089	81,262	140,284
Other operating income		2,874	1,910	5,319	4,782
Cost of music production and distribution		(10,467)	(7,975)	(20,228)	(17,216)
Cost of film and television programme production and distribution		(13,450)	(34,080)	(17,486)	(55,198)
Cost of provision of event production services		(988)	(1,570)	(2,471)	(2,225)
Distribution costs		(4,589)	(15,257)	(8,013)	(18,355)
Administrative expenses		(15,463)	(14,122)	(30,148)	(28,500)
Finance costs		(1,284)	(546)	(2,512)	(1,062)
Profit (loss) before taxation		10,734	(5,551)	5,723	22,510
Taxation	5	(485)	(2,174)	(1,233)	(4,975)
Profit (loss) for the period	6	10,249	(7,725)	4,490	17,535
Attributable to:					
Equity holders of the Company		10,823	(7,395)	5,525	18,048
Minority interests		(574)	(330)	(1,035)	(513)
		10,249	(7,725)	4,490	17,535
Earnings (loss) per share	7				
– basic		4.16 cents	(2.84) cents	2.13 cents	6.94 cents
– diluted		N/A	N/A	N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th September, 2005

	Notes	30th September, 2005 (unaudited) HK\$'000	31st March, 2005 (audited) HK\$'000 (restated)
Non-current assets			
Property, plant and equipment	8	3,882	3,860
Prepayments and other receivables		11,331	8,617
Film rights	8	2,286	3,719
		17,499	16,196
Current assets			
Film rights	8	120,375	133,239
Inventories and record masters		6,419	4,320
Trade receivables	9	36,371	60,920
Prepayments and other receivables		47,581	52,512
Bank balances and cash		48,861	51,463
		259,607	302,454
Current liabilities			
Trade payables	10	11,584	17,383
Other payables and accrued charges		107,434	86,977
Tax payable		4,258	3,083
Dividend payable		7,280	–
Amount due to ultimate holding company		27,490	89,037
		158,046	196,480
Net current assets		101,561	105,974
Total assets less current liabilities		119,060	122,170
Non-current liability			
Loans from minority shareholders of subsidiaries		1,941	2,204
		117,119	119,966
Capital and reserves			
Share capital		2,600	2,600
Reserves		114,376	116,230
Equity attributable to equity holders of the Company		116,976	118,830
Minority interests		143	1,136
Total equity		117,119	119,966

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30th September, 2005

	Attributable to equity holders of the Company						Minority interests	Total equity	
	Share capital	Share premium	Contributed surplus	Special reserve	Translation reserve	Accumulated losses			Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1st April, 2004	2,600	105,614	91,063	75,000	(226)	(163,048)	111,003	735	111,738
Exchange differences on translation of overseas operations recognised directly in equity	-	-	-	-	30	-	30	-	30
Profit (loss) for the period	-	-	-	-	-	18,048	18,048	(513)	17,535
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>	<u>222</u>	<u>129,303</u>
At 1st April, 2005, as originally stated	2,600	105,614	91,063	75,000	(528)	(152,359)	121,390	1,136	122,526
Effect of change in accounting policy	-	-	-	-	-	(2,560)	(2,560)	-	(2,560)
As restated	2,600	105,614	91,063	75,000	(528)	(154,919)	118,830	1,136	119,966
Exchange differences on translation of overseas operations recognised directly in equity	-	-	-	-	(99)	-	(99)	42	(57)
Dividend payable – final dividend for 2005	-	-	(7,280)	-	-	-	(7,280)	-	(7,280)
Profit (loss) for the period	-	-	-	-	-	5,525	5,525	(1,035)	4,490
At 30th September, 2005	<u>2,600</u>	<u>105,614</u>	<u>83,783</u>	<u>75,000</u>	<u>(627)</u>	<u>(149,394)</u>	<u>116,976</u>	<u>143</u>	<u>117,119</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September, 2005

	Six months ended 30th September, 2005 (unaudited) HK\$'000	2004 (unaudited) HK\$'000
Net cash from (used in) operating activities	62,063	(17,337)
Net cash used in investing activities	(343)	(1,199)
Net cash (used in) from financing activities	(64,322)	17,114
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(2,602)	(1,422)
Cash and cash equivalents at beginning of the period	51,463	30,116
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	48,861	28,694
	<hr/> <hr/>	<hr/> <hr/>
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	48,861	28,710
Bank overdrafts	-	(16)
	<hr/>	<hr/>
	48,861	28,694
	<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, concert management and organisation, and provision of event production services.

Notes: (Continued)

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

The unaudited condensed consolidated financial statements have been prepared in accordance with the Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and with the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules.

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies adopted for preparation of the unaudited condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st March, 2005 except as described below.

In the Half Yearly Period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests has been changed. The change in presentation has been applied retrospectively. The adoption of the new HKFRSs has resulted in change to the Group's accounting policy in the following area that has an effect on how the results for the current or prior accounting periods are prepared and presented:

Financial Instruments

In the Half Yearly Period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for accounting periods beginning on or after 1st January, 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effect resulting from the implementation of HKAS 32 and HKAS 39 is summarised below:

Financial assets other than debt and equity securities

From 1st April, 2005 onwards, the Group classifies and measures its financial assets other than debt and equity securities (which were previously outside the scope of Statement of Standard Accounting Practice 24) in accordance with the requirements of HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets".

Notes: (Continued)

2. Basis of Preparation of Financial Statements and Principal Accounting Policies
(Continued)

Financial Instruments (Continued)

Financial assets other than debt and equity securities (Continued)

Prior to the application of HKAS 39, interest-free loans to artistes and staff were stated at the nominal amount. HKAS 39 requires all financial assets and financial liabilities be measured at fair value on the initial recognition. Such loans are measured at amortised cost determined using the effective interest method at subsequent balance sheet dates. The change in accounting policy has resulted in a reduction of the carrying amount of prepayments and other receivables as at 1st April, 2005 by approximately HK\$2,560,000 and an increase of the accumulated losses as at 1st April, 2005 by approximately HK\$2,560,000. The effect of the change on the results of the Half Yearly Period is that other operating income and finance costs have been increased by approximately HK\$418,000 and HK\$719,000 respectively (2004: Nil) due to the recognition of imputed interest income and expense.

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

Notes: (Continued)

3. Turnover

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

	Three months ended 30th September, 2005 (unaudited) HK\$'000		Six months ended 30th September, 2005 (unaudited) HK\$'000	
		2004 (unaudited) HK\$'000		2004 (unaudited) HK\$'000
Music production and distribution				
– sales of albums	6,750	8,789	15,949	21,192
– licence income	4,660	7,822	9,251	14,171
– multimedia income	2,520	2,162	3,242	2,162
	13,930	18,773	28,442	37,525
Production and distribution of films and television programmes and licensing of the corresponding distribution rights	18,987	34,617	22,069	77,239
Artiste management fee income	7,293	10,218	14,542	21,507
Event production				
– share of net income from jointly organised event	12,671	8	13,425	840
– income from event production services	1,220	2,473	2,784	3,173
	13,891	2,481	16,209	4,013
	54,101	66,089	81,262	140,284

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,		2004	
	2005		Turnover (unaudited) HK\$'000	Contribution to profit for the period (unaudited) HK\$'000
	Turnover (unaudited) HK\$'000	Contribution to profit for the period (unaudited) HK\$'000		
Music production and distribution	28,442	(1,008)	37,525	7,567
Film and television programme production, distribution and licensing	22,069	(5,279)	77,239	(803)
Artiste management	14,542	8,574	21,507	17,455
Event production	16,209	7,421	4,013	1,638
	81,262	9,708	140,284	25,857
Other operating income not allocated to major activities		596		282
Unallocated corporate expenses		(2,069)		(2,567)
Finance costs		(2,512)		(1,062)
Profit before taxation		5,723		22,510
Taxation		(1,233)		(4,975)
Profit for the period		4,490		17,535

12

5. Taxation

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

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.

Notes: (Continued)

6. Profit (Loss) for the Period

	Three months ended 30th September, 2005 (unaudited) HK\$'000		Six months ended 30th September, 2005 (unaudited) HK\$'000	
	2004 (unaudited) HK\$'000		2004 (unaudited) HK\$'000	
Profit (loss) for the period has been arrived at after charging:				
Amortisation of film rights charged to cost of film and television programme production and distribution	12,748	33,883	16,825	54,692
Depreciation of property, plant and equipment	485	438	927	834
Impairment loss on film rights recognised and included in cost of film and television programme production and distribution	159	–	159	–

13

7. Earnings (Loss) per Share

The calculation of basic earnings (loss) per share is based on the unaudited consolidated profit attributable to equity holders of the Company of approximately HK\$10,823,000 for the Quarterly Period and of approximately HK\$5,525,000 for the Half Yearly Period (2004: a loss of approximately HK\$7,395,000 and a profit of approximately HK\$18,048,000) and the 260,000,000 ordinary shares in issue during the periods.

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

8. 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\$939,000, disposed of property, plant and equipment with aggregate net book value of approximately HK\$6,000 and spent approximately HK\$2,687,000 on cost of film rights.

Notes: (Continued)

9. 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, 2005 (unaudited) HK\$'000	31st March, 2005 (audited) HK\$'000
Current	14,946	42,146
Overdue		
0 - 30 days	7,583	3,822
31 - 60 days	3,945	3,393
61 - 90 days	1,918	5,767
over 90 days	7,979	5,792
	<hr/> 36,371 <hr/>	<hr/> 60,920 <hr/>

10. Trade Payables

The following is an aged analysis of trade payables:

	30th September, 2005 (unaudited) HK\$'000	31st March, 2005 (audited) HK\$'000
Current	1,265	3,198
Overdue		
0 - 30 days	2,857	2,271
31 - 60 days	1,789	2,684
61 - 90 days	432	1,512
over 90 days	5,241	7,718
	<hr/> 11,584 <hr/>	<hr/> 17,383 <hr/>

Notes: (Continued)

11. Commitments

(a) 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:

	30th September, 2005 (unaudited) HK\$'000	31st March, 2005 (audited) HK\$'000
Within one year	3,203	1,984
In the second to fifth year inclusive	3,762	853
	6,965	2,837

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

(b) Other commitments

	30th September, 2005 (unaudited) HK\$'000	31st March, 2005 (audited) HK\$'000
Artiste fees	20,433	23,510
Film production costs	26,903	28,460
Acquisition of rights of distribution and exploitation in a film	9,282	9,282
	56,618	61,252

Notes: (Continued)

12. Related Party Transactions

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

	Six months ended	
	30th September,	
	2005	2004
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Distribution and promotion commission income received	5,497	1,732
Fee received for back office support services (including accounting services)	300	–
Fee received for professional services (including legal, and production assistance and consultancy services)	483	–
Advertising and promotion expenses paid	157	220
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)	150	166
Fees paid for professional services (including information technology, legal and secretarial services)	381	263
Interest paid to ultimate holding company	1,793	1,062
Management fees and air-conditioning charges paid	327	341
Operating lease rentals paid	1,097	1,043

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 (2004: Nil).

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

As at 30th September, 2005, 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 the 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 (<i>"Ms. Semon Luk"</i>) (<i>Note</i>)	Family	203,054,000	78.09%

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 203,054,000 shares held by Surplus Way. By virtue of the aforesaid interests of Mr. Albert Yeung, Ms. Semon Luk (spouse of Mr. Albert Yeung and director of the Company) was also deemed to be interested in the above 203,054,000 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 director	Name of associated corporation	Nature of interests	Number of ordinary shares held	Percentage holding
Ms. Semon Luk	Surplus Way (Note (1))	Family	1	100%
Ms. Semon Luk	Jumbo Wealth (Note (1))	Family	1	100%
Ms. Semon Luk	Charron Holdings Limited ("Charron") (Note (2))	Family	1	100%
Ms. Semon Luk	Emperor International Holdings Limited ("Emperor International") (Note (2))	Family	796,797,411	70.97%
Mr. Wong Chi Fai	Emperor International (Note (3))	Beneficial	10,000,000	0.89%
Ms. Fan Man Seung, Vanessa	Emperor International (Note (3))	Beneficial	10,000,000	0.89%

Notes:

- (1) Surplus Way was the registered owner of 203,054,000 shares, representing 78.09% 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 director of the Company) was also deemed to be interested in the share capital of Surplus Way and Jumbo Wealth respectively.

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

(b) Long positions in shares of associated corporations (Continued)

Notes: (Continued)

- (2) Charron was the registered owner of 796,797,411 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 director of the Company) was also deemed to be interested in the share capital of Charron and Emperor International respectively.
- (3) Share options were granted to directors under the share option scheme of Emperor International.

Save as disclosed above, as at 30th September, 2005, 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's existing share option scheme (the "Share Option Scheme") was approved for adoption on 26th August, 2004 and became effective on 11th November, 2004 and valid for the next ten years. The purpose of the Share Option Scheme is to provide incentives or rewards to participants thereunder for their contribution to the Group and/or to enable the Group to recruit and retain high calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest ("Invested Entity"). The Share Option Scheme permits the Company to grant options to any employee or proposed employee (whether full-time or part-time employee, including any executive director) and non-executive director (including independent non-executive directors) of the Company, its subsidiaries or any Invested Entity, any supplier of goods or services, any customer, any person or entity that provides research, development or other technological support, any shareholders or any participants who contribute to the development and growth of the Group or any Invested Entity. Under the Share Option Scheme, the subscription price for the shares will be a price determined by the directors of the Company, but shall not be lower than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of the grant, which must be a trading day; (ii) the average closing price of shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the grant; and (iii) the nominal value of a share. An offer for the grant of options must be accepted within 28 days from the date of the offer and a nominal consideration of HK\$1 is payable on acceptance of the offer of options.

The total number of shares in respect of which options may be granted under the Share Option Scheme shall not in aggregate exceed 26,000,000 shares unless further shareholders' approval has been obtained. The overall limit in the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes shall not exceed 30% of the shares of the Company in issue from time to time.

Each grant of options to any director, chief executive, management shareholder or substantial shareholder of the Company, or any of their respective associates, must be approved by all independent non-executive directors of the Company. Where any grant of options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in the shares of the Company issued and to be issued upon exercise of all options already granted or to be granted to such person in the 12-month period representing in aggregate over 0.1% of the shares of the Company in issue and having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK\$5,000,000, such further grant of options must be approved by the shareholders with the connected persons of the Company abstaining from voting.

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

Subject to the aforesaid, the total number of shares issued and to be issued upon exercise of the options granted and to be granted to each grantee (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue. Any further grant of options in excess of the limit shall be subject to the shareholders' approval with such grantee abstaining from voting.

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

As at 30th September, 2005, 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, 2005, 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:

21

Long positions in shares of the Company

Name	Capacity/ Nature of interests	Number of ordinary shares held	Percentage holding
Surplus Way (Note)	Beneficial	203,054,000	78.09%
Jumbo Wealth (Note)	Trustee	203,054,000	78.09%
GZ Trust Corporation ("GZ Trust") (Note)	Trustee	203,054,000	78.09%
Mr. Albert Yeung (Note)	Founder of the Trust	203,054,000	78.09%
South China Finance and Management Limited	Beneficial	18,198,000	6.99%
South China Brokerage Company Limited	Interest in a controlled corporation	18,198,000	6.99%

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
East Hill Development Limited	Interest in a controlled corporation	18,198,000	6.99%
Tek Lee Finance and Investment Corporation Limited	Interest in a controlled corporation	18,198,000	6.99%
South China (BVI) Limited	Interest in a controlled corporation	18,198,000	6.99%
South China Holdings Limited	Interest in a controlled corporation	18,198,000	6.99%
Bannock Investment Limited	Interest in a controlled corporation	18,198,000	6.99%
Earntrade Investments Limited	Interest in a controlled corporation	18,198,000	6.99%
Parkfield Holdings Limited	Interest in a controlled corporation	18,198,000	6.99%
Ronastar Investments Limited	Interest in a controlled corporation	18,198,000	6.99%
Fung Shing Group Limited	Interest in a controlled corporation	18,198,000	6.99%
Ms. Cheung Choi Ngor	Persons acting in concert	18,198,000	6.99%
Mr. Richard Howard Gorges	Persons acting in concert	18,198,000	6.99%
Mr. Ng Hung Sang	Persons acting in concert	18,198,000	6.99%

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

(Continued)

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

Note: 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 203,054,000 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 the paragraph headed "Directors' and Chief Executives' Interests and Short Positions in Securities" above.

Save as disclosed above, as at 30th September, 2005, 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

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 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 & Talent Agency ("Cool Factory") which is 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.

CORPORATE GOVERNANCE

The Company had complied throughout the Half Yearly Period with the Code on Corporate Governance Practice as set out in Appendix 15 except that the Chairperson had not attended the annual general meeting of the Company held on 25th August, 2005 as she was not in Hong Kong at that time.

MODEL CODE FOR SECURITIES

The Company had adopted Rules 5.48 to Rules 5.67 of the GEM Listing Rules ("Model Code") as its own code of conduct regarding directors' securities transactions trading. Having made specific enquiry to all the directors of the Company, all the directors confirmed that they had throughout the Half Yearly Period complied with the required standard of dealings as set out in the Model Code.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference comprising the three independent non-executive directors of the Company, namely Mr. Chu Kar Wing (Chairman of the audit committee), Mr. Wong Ching Yue and Mr. Wong Tak Ming, Gary. The principal duties of the audit committee included the review and supervision of the Group's financial reporting system, internal control procedures, the Group's financial information and relationship with the auditors of the Company.

The Group's unaudited consolidated financial statements for the Half Yearly Period have been reviewed by the audit committee, who is of the opinion that the preparation of such results has complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

REMUNERATION COMMITTEE

The Company established a remuneration committee, comprising a majority of independent non-executive directors of the Company, with written terms of reference. The remuneration committee comprised Mr. Wong Chi Fai (Chairman of the remuneration committee), Mr. Chu Kar Wing and Mr. Wong Tak Ming, Gary.

The principal responsibilities of the remuneration committee included making recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and reviewing the specific remuneration packages of all executive directors and senior management.



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, 2005

As at the date hereof, the Board comprised Ms. Luk Siu Man, Semon (Chairperson and Non-executive Director); Mr. Ng Sui Wan alias Ng Yu, Mr. Wong Chi Fai and Ms. Fan Man Seung, Vanessa (Executive Directors); Mr. Wong Ching Yue, Mr. Chu Kar Wing and Mr. Wong Tak Ming, Gary, (Independent Non-executive Directors).