

青廟大聖

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

Third Quarterly Report 2005-2006

Director
Cameran
Date



情願大聖



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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 nine months ("Nine-Month Period") ended 31st December, 2005, the Company and its subsidiaries (collectively referred to as the "Group") recorded a turnover of approximately HK\$60.3 million and HK\$141.6 million, an increase of 60% and a decrease of 20% as compared with the last corresponding periods. Net losses of the Group for the Quarterly Period and the Nine-Month Period were approximately HK\$28.9 million (2004: net profit of approximately HK\$4.8 million) and HK\$23.4 million (2004: net profit of approximately HK\$22.9 million) respectively.

OPERATION REVIEW

Music Production and Distribution

Keen competition and serious piracy problem continued to affect the performance of this segment. The segment's turnover for the Nine-Month Period amounted to approximately HK\$42.8 million (2004: HK\$53.0 million).

Despite the challenging operating environment, the Group released a total of 57 albums (2004: 47), 54 of which are for the Group's own artistes.

In the year 2005, the Group's performance among various musical awards presentation was outstanding and fruitful. Up to the date of this report, the Group and its artistes totally won 118 awards, as compared to 120 awards in the previous corresponding period. The Group's female singer, Joey Yung embraced the best female singer awards of the four most highly-regarded awards presentation in Hong Kong, including the third consecutive awards in "JSG Best Ten Awards Presentation" held by Television Broadcasts Limited.

Film and Television Programme Production and Distribution

The segment recorded a loss of approximately HK\$35.5 million (2004: HK\$7.3 million) and an income of approximately HK\$52.3 million (2004: HK\$89.1 million) during the Nine-Month Period. The loss was mainly due to the provision for impairment of film rights.

During the Quarterly Period, the Group's film production arm, Emperor Motion Picture ("EMP") released the long awaited feature film "A Chinese Tall Story" for the Christmas period in Hong Kong and other Asian markets. Despite fierce competition, the film fared well with very encouraging box-office receipts.

On the international front, EMP's steadily growing library of films continued to attract interest from distributors around the world.

Meanwhile, EMP co-produced "Yun Shui Yao" ("雲水謠") with the China Film Group and Taiwan's Long Shong International. Principal photography of the feature film commenced in October 2005. Directed by award-winner Yin Li of China, the epic love story stars the Group's artistes Isabella Leong and Steven Cheung amongst a stellar cast of acting talents from China and Taiwan.

OPERATION REVIEW *(Continued)*

Artiste Management

The segment recorded revenue of approximately HK\$23.2 million (2004: HK\$28.8 million) and a profit of approximately HK\$11.3 million (2004: HK\$21.1 million).

A total of 12 new artistes joined the Group during the Nine-Month Period, three of which were recruited amongst the participants of the "EEG Singing Contest 2005", a singing contest co-organised by the Company and Television Broadcasts Limited. By the end of the Nine-Month Period, there was a total of 38 artistes under the Group's management.

Event Production

In the Nine-Month Period, the segment recorded strong results with turnover at approximately HK\$23.2 million (2004: HK\$7.0 million) and a profit of approximately HK\$14.1 million (2004: HK\$2.8 million).

During the Nine-Month Period, the Group co-organised a total of eleven concerts with third parties, out of which seven concerts were held in the Quarterly Period, featuring Leon Lai, the Grasshopper, Joey Yung, George Lam, Luciano Pavarotti and Korean artiste Rain.

PROSPECTS

On the one hand, the Group is studying measures to improve the profit margin of the music production and distribution segment. On the other hand, the Group plans to expand its artiste management business in the Mainland China market. In view of the encouraging performance of the event production segment, a number of concerts for both the local and overseas artistes had been scheduled for the coming months, including those featuring Twins and Sun Yanzi which had been held in January 2006.

For EMP, it will continue to work with different filmmakers in Hong Kong to develop new film projects. It is in active discussions with a number of Mainland China companies on potential co-production of feature films and television drama series, which will allow it to tap the rapidly growing China market. EMP also expects "The Myth" and "A Chinese Tall Story" to attract keen interest from overseas distributors at the forthcoming trade events.

RESULTS

The board of directors of the Company (the "Board") announces the unaudited consolidated results of the Group for the Quarterly Period and the Nine-Month Period together with the comparative unaudited figures for the corresponding periods in 2004 as follows:

	Notes	Three months ended 31st December,		Nine months ended 31st December,	
		2005 (unaudited) HK\$'000	2004 (unaudited) HK\$'000	2005 (unaudited) HK\$'000	2004 (unaudited) HK\$'000
Turnover	3	60,339	37,628	141,601	177,912
Other operating income		3,324	4,380	8,643	9,162
Cost of music production and distribution		(15,225)	(3,530)	(35,453)	(20,746)
Cost of film and television programme production and distribution		(51,292)	(8,467)	(68,778)	(63,665)
Cost of provision of event production services		(496)	(803)	(2,967)	(3,028)
Distribution costs		(7,601)	(7,544)	(15,614)	(25,899)
Administrative expenses		(15,838)	(14,381)	(45,986)	(42,881)
Finance costs		(1,373)	(813)	(3,885)	(1,875)
(Loss) profit before taxation		(28,162)	6,470	(22,439)	28,980
Taxation	4	(1,131)	(2,171)	(2,364)	(7,146)
(Loss) profit for the period		(29,293)	4,299	(24,803)	21,834
Attributable to:					
Equity holders of the Company		(28,943)	4,812	(23,418)	22,860
Minority interests		(350)	(513)	(1,385)	(1,026)
		(29,293)	4,299	(24,803)	21,834
(Loss) earnings per share	5				
– basic		(11.13) cents	1.85 cents	(9.01) cents	8.79 cents
– diluted		N/A	N/A	N/A	N/A

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 Profits Limited ("Surplus Way"), a company which is incorporated in the British Virgin Islands.

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

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

The unaudited consolidated results of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules.

The unaudited consolidated results 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 consolidated results 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 Nine-Month Period, the Group has applied, for the first time, a number of the 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:

Notes: (Continued)

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

Financial Instruments

In the Nine-Month 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".

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 Nine-Month Period is that other operating income and finance costs have been increased by approximately HK\$1,719,000 and HK\$1,755,000 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 31st December, 2005 (unaudited) HK\$'000		Nine months ended 31st December, 2005 (unaudited) HK\$'000	
	2004 (unaudited) HK\$'000	2004 (unaudited) HK\$'000	2004 (unaudited) HK\$'000	2004 (unaudited) HK\$'000
Music production and distribution				
– sales of albums		8,121	22,185	29,313
– licence income		7,057	15,569	21,228
– multimedia income		323	5,054	2,485
		<u>14,366</u>	<u>42,808</u>	<u>53,026</u>
Production and distribution of films and television programmes and licensing of the corresponding distribution rights		11,821	52,344	89,060
Artiste management fee income		7,293	23,204	28,800
Event production				
– share of net income from jointly organised events		840	18,711	1,680
– income from event production services		2,173	4,534	5,346
		<u>7,036</u>	<u>23,245</u>	<u>7,026</u>
		<u>60,339</u>	<u>141,601</u>	<u>177,912</u>

4. Taxation

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

Notes: (Continued)

5. (Loss) Earnings per Share

The calculation of basic (loss) earnings per share is based on the unaudited consolidated losses attributable to equity holders of the Company of approximately HK\$28,943,000 for the Quarterly Period and HK\$23,418,000 for the Nine-Month Period (the corresponding periods in 2004: profits of approximately HK\$4,812,000 and HK\$22,860,000) and the 260,000,000 ordinary shares in issue during the periods.

Diluted (loss) earnings per share has not been presented for the periods as the Company had no dilutive potential ordinary shares in these periods.

6. Capital and Reserves

An analysis of the movements of capital and reserves is shown as follows:

	Attributable to equity holders of the Company						Total	Minority interests	Total equity
	Share capital	Share premium	Contributed surplus	Special reserve	Translation reserve	Accumulated losses			
	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) 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 not recognised directly in equity	-	-	-	-	(14)	-	(14)	(2)	(16)
Capital contribution from a minority shareholder of a subsidiary	-	-	-	-	-	-	-	1,885	1,885
Profit (loss) for the period	-	-	-	-	-	22,860	22,860	(1,026)	21,834
At 31st December, 2004	<u>2,600</u>	<u>105,614</u>	<u>91,063</u>	<u>75,000</u>	<u>(240)</u>	<u>(140,188)</u>	<u>133,849</u>	<u>1,592</u>	<u>135,441</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 not recognised directly in equity	-	-	-	-	(171)	-	(171)	50	(121)
Dividend paid – final dividend for 2005	-	-	(7,280)	-	-	-	(7,280)	-	(7,280)
Loss for the period	-	-	-	-	-	(23,418)	(23,418)	(1,385)	(24,803)
At 31st December, 2005	<u>2,600</u>	<u>105,614</u>	<u>83,783</u>	<u>75,000</u>	<u>(699)</u>	<u>(178,337)</u>	<u>87,961</u>	<u>(199)</u>	<u>87,762</u>

DIVIDEND

The Board did not recommend the payment of dividend for the Nine-Month Period (2004: Nil).

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

As at 31st December, 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	Approximate percentage holding
Ms. Luk Siu Man, Semon ("Ms. Semon Luk") (<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	Approximate percentage holding
Ms. Semon Luk	Surplus Way <i>(Note (1))</i>	Family	1	100%
Ms. Semon Luk	Jumbo Wealth <i>(Note (1))</i>	Family	1	100%
Ms. Semon Luk	Charron Holdings Limited ("Charron") <i>(Note (2))</i>	Family	1	100%
Ms. Semon Luk	Emperor International Holdings Limited ("Emperor International") <i>(Note (2))</i>	Family	802,539,411	71.48%
Mr. Wong Chi Fai	Emperor International <i>(Note (3))</i>	Beneficial	10,000,000	0.89%
Ms. Fan Man Seung, Vanessa	Emperor International <i>(Note (3))</i>	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.
- (2) Charron was the registered owner of 802,539,411 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.

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

Save as disclosed above, as at 31st December, 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 Company had not granted any option under the Share Option Scheme since its adoption.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as known to the directors of the Company, as at 31st December, 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:

Long positions in shares of the Company

Name	Capacity/ Nature of interests	Number of ordinary shares held	Approximate percentage holding
Surplus Way <i>(Note)</i>	Beneficial	203,054,000	78.09%
Jumbo Wealth <i>(Note)</i>	Trustee	203,054,000	78.09%
GZ Trust Corporation ("GZ Trust") <i>(Note)</i>	Trustee	203,054,000	78.09%
Mr. Albert Yeung <i>(Note)</i>	Founder of the Trust	203,054,000	78.09%

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	Approximate percentage holding
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%
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 31st December, 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 businesses of JCE and Prime Time 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 aforesaid 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 and Prime Time 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.

REVIEW OF QUARTERLY RESULTS

The unaudited quarterly results of the Group for the Nine-Month Period has been reviewed by the audit committee of the Company, 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. The audit committee comprises 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.

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

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

By Order of the Board
Luk Siu Man, Semon
Chairperson

Hong Kong, 13th February, 2006

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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).