



FIRST QUARTERLY REPORT 2006-2007

EEG

EMPEROR ENTERTAINMENT GROUP LIMITED
英皇娛樂集團有限公司

(Incorporated in Bermuda with limited liability)

GEM Stock Code : 8078

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

EMPEROR ENTERTAINMENT GROUP LIMITED (STOCK CODE: 8078)

MANAGEMENT DISCUSSION AND ANALYSIS

For the three months ended 30th June, 2006 ("Period"), the Company and its subsidiaries (collectively referred to as the "Group") had recorded net profit of approximately HK\$8.4 million, against loss of approximately HK\$5.3 million in the same period in 2005. Turnover increased 100.9% to approximately HK\$54.6 million. The turnaround was the result of increased sales in music production and distribution; film and television programme production, distribution and licensing as well as artiste management. Film and television businesses had performed remarkably well and the segment's contribution was approximately HK\$2.2 million.

OPERATION REVIEW

Music Production and Distribution

The operation saw its turnover increased by 28.2% to approximately HK\$18.6 million (2005: HK\$14.5 million), despite the keen competition and serious piracy problems such as free internet download in the industry. It recorded a profit of approximately HK\$803,000, as against a loss of approximately HK\$521,000 in the same period in 2005.

To keep its market share, the Group focused on making quality music records and exploring new revenue streams. Licence income – including that in Hong Kong and the Mainland China – rose 145.1% to approximately HK\$11.3 million. Multimedia income, referring to provision of idols-based mobile entertainment services including connecting tone, content download and mobile games, increased 154.2% to approximately HK\$1.8 million. Sales of music albums were down 40.1% to approximately HK\$5.5 million.

During the Period, the Group released 18 music albums (2005: 20) including 16 for its own artistes. The Group had received 6 awards (2005: 5) in various musical functions and presentations during the Period.

Film and Television Programme Production and Distribution

This business sector contributed approximately HK\$26.5 million (2005: HK\$3.1 million) to the Group's turnover during the Period. The profit from this segment was approximately HK\$2.2 million (2005: loss of HK\$5.3 million) for the Period under review. Income from production of films and television programmes and licensing accounted for turnover of this business sector of approximately HK\$25.3 million (2005: HK\$1.8 million).

Distribution

The Group's film and television production and distribution arm, Emperor Motion Pictures ("EMP"), had participated in this year's Cannes Film Festival which marked the commencement of international sales of JCE Movies' latest Jackie Chan action comedy blockbuster "Rob-B-Hood". Directed by Benny Chan and scheduled for commercial release in September 2006, it was well received by international distributors and sales were brisk. Sales on other titles, directed by Susie Au, Ho Ping, Yin Li, Kong Tao-hoi and Chen Yifei, were also launched in Cannes.

EMP had no local theatrical release during the Period.

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

EMP has stepped up development plans for the coming years with a number of high-profile feature film and television projects with filmmakers including Lawrence Lau, John Chan, Alex Law, and Dante Lam. Some of these projects, once fully developed, are expected to go into production before the end of 2006.

During the Period, pre-production on “Let’s Steal Together” – a co-production with i-Cable Communications’ subsidiary Sundream Motion Pictures, has been continuing. On the other hand, principal photography on “The Knot”, the EMP/Long Shong/China Film co-production, was completed.

Artiste Management

The segment continued to contribute steady income to the Group. Income from artiste management for the Period soared by 18.3% to approximately HK\$8.6 million (2005: HK\$7.2 million). During the Period, the Group managed 48 artistes.

Event Production

During the Period, the Group recorded income of approximately HK\$0.9 million (2005: HK\$2.3 million). It had a contribution of approximately HK\$121,000 (2005: HK\$309,000).

The Group had organised 5 concerts including one featuring its own artiste, with third parties. In May 2006, the Group had hosted “One Live One Love” concert for Joey Yung, with cooperation with well-known violinist Yao Jue and Moravian Philharmonic Orchestra. Other concerts starred Paul Anka, Connie Francis, Liu Jia Chang respectively in Hong Kong and Rolling Stones in Shanghai.

PROSPECTS

Supported by a strong talent base and solid industry expertise, the management expects the Group to grow despite the keen competition and increase its market share locally and overseas.

To further explore the lucrative Mainland China market, the Group had established “Emperor Entertainment Group (China) (英皇星藝)”. Emperor Entertainment Group (China) is a wholly-owned company of the Group which has absolute control over its management and operations. Emperor Entertainment Group (China) plans to operate in Mainland China a model similar to Hong Kong. The new company will strengthen the Group’s niche in artiste management and concert production in the mainland market. The new company is in preparation for event productions in Mainland China.

PROSPECTS *(Continued)*

The Group had also established a joint venture in Shanghai with Shanghai Film Group Corporation, namely "SFS Emperor (上海上影英皇文化發展有限公司)". Shanghai Film Group is a member of China's leading media conglomerate Shanghai Media & Entertainment Group, which comprises Shanghai Film Studio, Shanghai Animation Film Studio, Shanghai Dubbing Studio and Shanghai Science & Educational Film Studio as well as Shanghai Film Laboratory. SFS Emperor will focus on film production and nurturing young artistes.

In Hong Kong, the Group would continue to organise more concerts in the coming periods. After the Period under review, the Group had organised a musical play "Only You" starring Adam Cheng and Chan Po-chu. Other concerts in the pipeline include those featuring Wong Lee Hom, Jolin Choi and Jonathan Lee. The management expects these events continue to bring in contribution to the Group.

For EMP, the coming quarter is expected to be busy and productive with the commercial release of "Rob-B-Hood" scheduled for September 2006 throughout all Asian territories. Concurrently, post-production on "The Knot" continues, targeting an end-of-the-year commercial release.

RESULTS

The board of directors of the Company (the "Board") announces the unaudited consolidated results of the Group for the Period together with the comparative unaudited figures for the corresponding period in 2005 as follows:

	Notes	Three months ended 30th June,	
		2006 HK\$'000	2005 HK\$'000
Revenue	2	54,567	27,161
Other income		2,206	2,445
Cost of music production and distribution		(11,241)	(9,761)
Cost of film and television programme production and distribution		(21,511)	(4,036)
Cost of provision of event production services		(75)	(1,483)
Distribution costs		(1,563)	(3,424)
Administrative expenses		(13,625)	(14,685)
Finance costs		(101)	(1,228)
Gain on disposal of a subsidiary	3	822	–
Profit (loss) before taxation		9,479	(5,011)
Income tax expense	4	(1,101)	(748)
Profit (loss) for the period		8,378	(5,759)
Attributable to:			
Equity holders of the Company		8,422	(5,298)
Minority interests		(44)	(461)
		8,378	(5,759)
Earnings (loss) per share	5		
– basic		3.24 cents	(2.04) cents
– diluted		N/A	N/A

Notes:

1. General and basis of preparation

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.

The unaudited consolidated results of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules.

The accounting policies adopted for preparation of the unaudited consolidated results are consistent with those adopted by the Group in its annual financial statements for the year ended 31st March, 2006.

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

Notes: (Continued)

2. Revenue

	Three months ended 30th June,	
	2006	2005
	HK\$'000	HK\$'000
An analysis of the Group's revenue is as follows:		
Music production and distribution		
– sales of albums	5,510	9,199
– licence income	11,253	4,591
– multimedia income	1,835	722
	18,598	14,512
Film and television programme production, distribution and licensing		
– production of films and television programmes and licensing of the corresponding rights	25,354	1,803
– distribution of films and television programmes	1,175	1,279
	26,529	3,082
Artiste management fee income	8,578	7,249
Event production		
– income from jointly organised event	262	754
– income from provision of event production services	600	1,564
	862	2,318
	54,567	27,161

Notes: (Continued)

3. Gain on disposal of a subsidiary

On 30th December, 2005, the Group entered into an agreement with the minority shareholder of a subsidiary, 北京中北英皇文化發展有限公司(“中北英皇”), which was engaged in provision of management services to artistes and holding company of an artiste training school, for disposal of its 60% equity interest in 中北英皇 to the minority shareholder. Such disposal was completed on 14th June, 2006 (“Date of Disposal”), on which date control of 中北英皇 was passed to the minority shareholder.

The net assets of 中北英皇 at the Date of Disposal and as at 31st March, 2006 were as follows:

	At 14th June, 2006 HK\$'000	At 31st March, 2006 HK\$'000
Loan to a minority shareholder of a subsidiary	60	60
Property, plant and equipment	1,154	1,154
Prepayments and other receivables – non-current portion	276	276
Prepayments and other receivables – current portion	448	544
Trade receivables	202	202
Bank balances and cash	1,076	945
Other payables and accrued charges	(1,290)	(1,266)
Intercompany debts	104	116
Minority interests	(808)	(809)
	1,222	<u>1,222</u>
Waiver of intercompany debts	(104)	
Translation reserve realised	(19)	
Gain on disposal of a subsidiary	822	
	1,921	
Total consideration	1,921	
Satisfied by:		
Cash	1,921	
Net cash inflow arising on disposal of a subsidiary:		
Cash consideration received	1,921	
Cash and cash equivalent disposed of:	(1,076)	
	845	

Notes: (Continued)

3. Gain on disposal of a subsidiary (Continued)

The impact of the disposal of 中北英皇 on the Group's revenue and results in the period up to the Date of Disposal and prior year were as follow:

	Period ended 14th June, 2006 HK\$'000	Year ended 31st March, 2006 HK\$'000
Revenue	-	323
Other income	-	1,823
Distribution costs	-	(570)
Administrative expenses	-	(3,541)
Minority interest	-	786
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Loss attributable to equity holders of the Company	-	(1,179)
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During the period up to the Date of Disposal, 中北英皇 had no significant impact on cash flows of the Group. In the prior year, 中北英皇 paid approximately HK\$1,434,000 in respect of the Group's net operating cash flows, paid approximately HK\$232,000 in respect of investing activities and paid approximately HK\$398,000 in respect of financing activities.

4. Income tax expense

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.

5. 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 for the Period of approximately HK\$8,422,000 (2005: loss of approximately HK\$5,298,000) and the 260,000,000 shares in issue during both periods.

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

Notes: (Continued)

6. Capital, reserves and minority interests

	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, 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	-	-	-	-	(47)	-	(47)	(10)	(57)
Loss for the period	-	-	-	-	-	(5,298)	(5,298)	(461)	(5,759)
Total recognised expense for the period	-	-	-	-	(47)	(5,298)	(5,345)	(471)	(5,816)
At 30th June, 2005	2,600	105,614	91,063	75,000	(575)	(160,217)	113,485	665	114,150
At 1st April, 2006	2,600	105,614	83,783	75,000	(699)	(187,468)	78,830	(714)	78,116
Exchange differences on translation of overseas operations recognised directly in equity	-	-	-	-	323	-	323	2	325
Profit (loss) for the period	-	-	-	-	-	8,422	8,422	(44)	8,378
Total recognised income (expense) for the period	-	-	-	-	323	8,422	8,745	(42)	8,703
Eliminated on disposal of a subsidiary	-	-	-	-	-	-	-	(808)	(808)
At 30th June, 2006	2,600	105,614	83,783	75,000	(376)	(179,046)	87,575	(1,564)	86,011

DIVIDEND

The Board did not recommend the payment of an interim dividend for the Period (2005: Nil).

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

As at 30th June, 2006, 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 ordinary shares of HK\$0.01 each 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 (the "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/underlying shares held		Approximate percentage holding
			share(s)/underlying shares held	Number	
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	813,301,411		60.37%
Mr. Wong Chi Fai	Emperor International (Note (3))	Beneficial	10,000,000		0.74%
Ms. Fan Man Seung, Vanessa	Emperor International (Note (3))	Beneficial	10,000,000		0.74%

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:

- (2) Charron was the registered owner of 813,301,411 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 June, 2006, 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 the 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.

As at 30th June, 2006, the Company had not granted any right to subscribe for equity or debt securities of the Company to any director or chief executive of the Company or their spouse or children under 18 years of age.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as known to the directors of the Company, as at 30th June, 2006, 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 were as follows:

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS*(Continued)***Long positions in ordinary shares of HK\$0.01 each 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%
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%

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS*(Continued)***Long positions in ordinary shares of HK\$0.01 each of the Company***(Continued)*

Name	Capacity/ Nature of interests	Number of ordinary shares held	Approximate percentage holding
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%

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 June, 2006, 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.

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 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 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 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 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 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 August, 2006

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).