

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

First Quarterly Report
2007-2008

EMPEROR ENTERTAINMENT GROUP LIMITED (STOCK CODE: 8078)

MANAGEMENT DISCUSSION AND ANALYSIS

For the three months ended 30th June, 2007 (the "Period"), the Company and its subsidiaries (collectively referred to as the "Group") recorded revenue of approximately HK\$29.2 million, against HK\$54.6 million for the same period in 2006. The Group incurred a loss of approximately HK\$1.3 million, compared with a HK\$8.4 million profit previously.

OPERATION REVIEW

Music Production and Distribution

During the Period, the segment had a turnover of approximately HK\$5.9 million (2006: HK\$18.6 million) and recorded a loss of approximately HK\$6.5 million (2006: profit of HK\$803,000), due to the keen competition in the industry and serious piracy problems.

During the Period, the Group released 16 music albums (2006: 18) for its own artists. Sales of music albums and licence income dropped to approximately HK\$2.7 million (2006: HK\$5.5 million) and HK\$2.1 million (2006: HK\$11.3 million) respectively. The Group sought to diversify its income stream by providing idols-based mobile entertainment services including connecting tone, content download and mobile games to mobile subscribers in Hong Kong. Such multimedia income contributed approximately HK\$1.1 million (2006: HK\$1.8 million) to the Group's turnover.

Film and Television Programme Production and Distribution

During the Period, this business sector contributed turnover of approximately HK\$9.1 million (2006: HK\$26.5 million) and a profit of approximately HK\$227,000 (2006: HK\$2.2 million), mainly from the licensing of *Twins Mission* and *The Medallion* as well as distribution of *Rob-B-Hood*.

Distribution of films and television programmes contributed approximately HK\$1.7 million (2006: HK\$1.2 million) of the Group's turnover. Films and television programmes production and licensing accounted for approximately HK\$7.4 million of the turnover (2006: HK\$25.3 million) as the Group lacked sizable productions during the Period.

Distribution

The Group receives contribution from distribution of films produced by Emperor Motion Pictures ("EMP") and JCE Movies. During the Period, the Group had released *Ming Ming* starring Zhou Xun and Daniel Wu. Meanwhile, EMP participated in the 60th Cannes Film Festival, and commenced sales on *The Sun Also Rises*, the much-anticipated third film by Chinese auteur Jiang Wen.

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

On the production front, the Group had completed the principal photography of *Kung Fu Dunk*, a project co-invested with Taiwan's Chang-Hong Channel Film & Video and China's Shanghai Film Group. The production, directed by veteran Taiwanese director Kevin Chu and starring Jay Chou and EEG's own Charlene Choi of Twins, is scheduled for release during Chinese New Year in 2008.

During the Period, the Group had also commenced production of *The Fantastic Water Babes*, an aquatic action comedy starring Gillian Chung of Twins, Stephen Fung Tak-lun, Alex Fong, and Huang Shengyi. The film also marks the screen debut of Chinese Olympian Tian Liang. Concurrently, production also commenced on *Home Run*, a comedy starring Chapman To and Fan Bingbing. Both productions are scheduled for commercial release during 2008.

Artiste Management

The segment continued to contribute stable income to the Group. Income from artiste management for the Period rose by 51% to approximately HK\$13.0 million (2006: HK\$8.6 million) while profit reached HK\$7.0 million (2006: HK\$5.8 million). During the Period, the Group had recruited five artistes which increased the total number of artistes to 56.

Event Production

During the Period, this segment contributed approximately HK\$1.2 million (2006: HK\$862,000) to the Group's revenue. The Group recorded a loss of approximately HK\$365,000 (2006: profit of HK\$121,000). The Group acted as the lead organiser of only one concert, out of a total five concerts participated in.

PROSPECTS

The entertainment industry is a highly competitive and mobile industry. The management is committed to building up and maintaining a strong talent base, sound industry expertise and network to sustain its competitive edge.

To strengthen its audience reach and boost the popularity of its artistes, the Group had launched a television channel on TVB's pay-television platform. Named EEG Channel, it is the first of its kind in Hong Kong which broadcasts news, interviews and music videos featuring the Group's artistes. The Group will use the platform to maintain the popularity of its artistes and source new and talented artistes.

PROSPECTS *(Continued)*

Through the establishment of “Emperor Entertainment Group (China)” (i.e. 英皇星藝(北京)文化發展有限公司), a wholly-owned subsidiary in Beijing and “SFS Emperor” (i.e. 上海上影英皇文化發展有限公司), a joint venture in Shanghai with Shanghai Film Group Corporation, one of the leading nationwide media conglomerates in China, the Group will continue to expand its presence in Mainland China, while at the same time source promising talents and lucrative projects from such a big market.

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 2006 as follows:

		Three months ended	
		30th June,	
		2007	2006
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Revenue	2	29,150	54,567
Other income		2,782	2,206
Cost of music production and distribution		(8,441)	(11,241)
Cost of film and television programme production and distribution		(4,770)	(21,511)
Cost of provision of event production services		(1,009)	(75)
Distribution costs		(2,108)	(1,563)
Administrative expenses		(15,823)	(13,625)
Finance costs		(563)	(101)
Share of results of a jointly controlled entity		(75)	-
Gain on disposal of a subsidiary		-	822
		<hr/>	<hr/>
(Loss) profit before taxation		(857)	9,479
Taxation	3	(440)	(1,101)
		<hr/>	<hr/>
(Loss) profit for the period		<u>(1,297)</u>	<u>8,378</u>
Attributable to:			
Equity holders of the Company		(1,297)	8,422
Minority interests		-	(44)
		<hr/>	<hr/>
		<u>(1,297)</u>	<u>8,378</u>
(Loss) earnings per share	4		
- basic		<u>(0.50) cent</u>	<u>3.24 cents</u>
- diluted		<u>N/A</u>	<u>N/A</u>

RESULTS *(Continued)*

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 address of the registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal place of business is 28/F, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong.

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, 2007.

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

Notes: (Continued)

2. Revenue

	Three months ended 30th June,	
	2007	2006
	HK\$'000	HK\$'000
An analysis of the Group's revenue is as follows:		
Music production and distribution		
– sales of albums	2,727	5,510
– licence income	2,121	11,253
– multimedia income	1,040	1,835
	5,888	18,598
Film and television programme production, distribution and licensing		
– production of films and television programmes and licensing of the corresponding rights	7,442	25,354
– distribution of films and television programmes	1,673	1,175
	9,115	26,529
Artiste management fee income	12,952	8,578
Event production		
– (loss) income from jointly organised event	(555)	262
– income from provision of event production services	1,750	600
	1,195	862
	29,150	54,567

Notes: (Continued)

3. 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.

4. (Loss) earnings per share

The calculation of basic (loss) earnings per share is based on the unaudited consolidated loss attributable to equity holders of the Company for the Period of approximately HK\$1,297,000 (2006: profit of HK\$8,422,000) and the 260,000,000 shares in issue during both periods.

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

Notes: (Continued)

5. Capital, reserves and minority interests

	Attributable to equity holders of the Company							Minority interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Special reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000		
At 1st April, 2006	2,600	105,614	83,783	75,000	(699)	(187,468)	78,830	(714)	78,116
Exchange differences on translation of foreign operations	-	-	-	-	323	-	323	2	325
Net income recognised directly in equity	-	-	-	-	323	-	323	2	325
Profit (loss) for the period	-	-	-	-	-	8,422	8,422	(44)	8,378
Transfer to profit or loss on disposal of a subsidiary	-	-	-	-	-	-	-	(808)	(808)
Total recognised income (expense) for the period	-	-	-	-	323	8,422	8,745	(850)	7,895
At 30th June, 2006	2,600	105,614	83,783	75,000	(376)	(179,046)	87,575	(1,564)	86,011
At 1st April, 2007	2,600	105,614	83,783	75,000	(364)	(170,188)	96,445	(1,688)	94,757
Exchange differences on translation of foreign operations	-	-	-	-	480	-	480	6	486
Share of changes in equity of a jointly controlled entity	-	-	-	-	104	-	104	-	104
Net income recognised directly in equity	-	-	-	-	584	-	584	6	590
Loss for the period	-	-	-	-	-	(1,297)	(1,297)	-	(1,297)
Total recognised income (expense) for the period	-	-	-	-	584	(1,297)	(713)	6	(707)
At 30th June, 2007	2,600	105,614	83,783	75,000	220	(171,485)	95,732	(1,682)	94,050

DIVIDEND

The Board did not recommend the payment of an interim dividend for the Period (2006: Nil).

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

As at 30th June, 2007, 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 share(s)/underlying 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	Lion Empire Investments Limited ("Lion Empire") <i>(Note (2a))</i>	Family	1	100%
Ms. Semon Luk	Perpetual Wealth Investments Limited ("Perpetual Wealth") <i>(Note (2a))</i>	Family	1	100%
Ms. Semon Luk	Emperor International Holdings Limited ("Emperor International") <i>(Note (2) & (2a))</i>	Family	892,735,364	55.22%
Ms. Semon Luk	Emperor Capital Group Limited ("Emperor Capital") <i>(Note (2))</i>	Family	325,320,564	54.11%
Mr. Wong Chi Fai	Emperor International <i>(Note (3))</i>	Beneficial	10,000,000	0.71%
Ms. Fan Man Seung, Vanessa	Emperor International <i>(Note (3))</i>	Beneficial	10,000,000	0.71%

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

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

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 interested in 813,301,411 shares in Emperor International and was the registered owner of 325,320,564 shares in Emperor Capital. 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, Charron, Emperor International and Emperor Capital 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, Emperor International and Emperor Capital 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, Emperor International and Emperor Capital respectively.
- (2a) Lion Empire entered into a sale and purchase agreement dated 12 June 2007 with a wholly owned subsidiary of Emperor International. Pursuant to such agreement, Emperor International agreed to issue 79,433,953 new shares to Lion Empire as consideration upon completion subject to the fulfillment of the conditions set out in the agreement. The entire issued capital of Lion Empire was held by Perpetual Wealth on trust for The A&S Unit Trust, a unit trust under the Trust. Mr. Albert Yeung, as founder of the Trust, was deemed to be interested in the 79,433,953 shares. 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 79,433,953 shares of Emperor International.
- (3) Share options were granted to directors under the share option scheme of Emperor International.

Save as disclosed above, as at 30th June, 2007, 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, 2007, 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, 2007, 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:

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%

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
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%
Eartrade 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%

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.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

(Continued)

Long positions in ordinary shares of HK\$0.01 each of the Company

(Continued)

Save as disclosed above, as at 30th June, 2007, 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 (as defined in the GEM Listing Rules), 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, 13th August, 2007

As at the date hereof, the Board comprises Ms. Luk Siu Man, Semon (Chairperson); 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).