

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
2008-2009

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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.

MANAGEMENT DISCUSSION AND ANALYSIS

For the three months ended 30th September, 2008 (the "Period"), the Company and its subsidiaries (collectively referred to as the "Group") reported revenue of approximately HK\$23.1 million (2007: HK\$25.4 million). It had a net loss of approximately HK\$67.2 million (2007: HK\$8.2 million), primarily due to an impairment loss on film rights of certain films of the Group and the prepaid artiste expenses made by the Group as a result of the revision by the Group's management on the expected income from the films and the artistes in view of the expected slow-down of the global economy.

The Company had, as a result of such impairment loss, entered into a net liabilities position as at 30th September, 2008. Nevertheless, the Company has obtained financial support from its ultimate holding company, which will not demand for the repayment of the amount due to it until the Company has the ability to repay the amount.

OPERATION REVIEW

Artiste Management

During the Period, the segment received turnover of approximately HK\$3.9 million (2007: HK\$8.8 million), accounting for 16.9% of the Group's total revenue. Turnover decreased because of postponing of marketing activities in The People's Republic of China due to the overwhelming presence of the Beijing Olympics held during the Period as well as the slow-down of the global economy.

During the Period, four new artistes have joined the Group, bringing the total number of artistes to 59 as at 30th September, 2008.

Event Production

The Group also engages in organising of concerts and stage events. During the Period, the Group had held two plays, namely *Art* by Yasmina Reza and *BEYOND*, which were well received by audience.

It also co-organised the annual EEG Singing Contest with Television Broadcasts Limited in September 2008. The event serves as one of the means of the Group to source talented artistes.

This segment recorded income of approximately HK\$6.9 million (2007: HK\$3.5 million), which contributed 30.0% to the Group's total revenue during the Period.

Music Production and Distribution

The music production and distribution segment recorded turnover of approximately HK\$10.0 million for the Period (2007: HK\$10.5 million), amounting to 43.3% of the Group's total revenue.

Apart from the economy downturn, the segment was also adversely affected by keen competition and copyright infringement activities such as free download and file sharing. During the Period, the Group released 10 music albums (2007: 29). Sales of music albums amounted to approximately HK\$4.3 million (2007: HK\$5.0 million). Copyright licensing income contributed revenue of approximately HK\$4.9 million (2007: HK\$4.2 million). Income from provision of multimedia content to telecommunications operators amounted to approximately HK\$0.8 million (2007: HK\$1.3 million).

Film and Television Program Production and Distribution

The Group – operates under its film production and distribution arm Emperor Motion Picture (“EMP”) – received from film and television programme production and distribution revenue of approximately HK\$2.3 million (2007: HK\$2.6 million) during the Period, accounting for 9.8% of the Group's total revenue. The revenue was mainly derived from licensing of *The Deserted Inn*, *The Drummer* and *Yes, I Can See Dead People*, and distribution of *Rob-B-Hood* and *The Myth*.

Owing to deterioration of economic condition globally, the Group had adjusted its expected distribution income from certain films, which resulted in substantial impairment loss on the film rights.

During the Period, EMP had co-distributed in Hong Kong two imported films, namely *Space Chimps* and *The Edge of Love*, under its strategic alliance with Lark Films Distribution Limited. It had also released the film *Connected*, which was co-produced with third parties.

On the production front, the Group had completed photography of two films, namely *The Beast Stalker* starring Nicholas Tse and Zhang Jingchu and *Just Love*. It had seven films in production as at the end of the Period, which were scheduled to be released in this year or 2009.

Outside Hong Kong, the production of EMP-financed *W* had been completed. The film is on U.S. President George W. Bush by award-winning director Oliver Stone and starring Josh Brolin and Elizabeth Banks. It was released in the United States in November 2008, which signals EMP's gradual expansion into the financing of international film projects to tap into additional revenue streams.

PROSPECTS

The global economic downturn had worsened in the second half of the year so that consumers in Hong Kong and overseas had cut their spendings. A possible economic meltdown had triggered companies to reduce their advertising budgets, which affected the overall media and entertainment industry.

To stay competitive in the highly mobile industry, the Group is committed to leveraging on its strong talent base and industry expertise and network, while strengthening the audience reach of its artistes.

The music industry in Hong Kong and worldwide has been transforming from traditional album sales to multi-platform and multimedia business with room for creativity and development. In releasing music albums, the Group not only aims at album sales but more importantly building up the Group's foothold in the digitalising industry and karaoke market. Meanwhile, album sales continued to serve as an important promotion tool for the Group's artistes to boost their popularity so that the Group can enjoy returns through concert production and artiste management.

EMP will exercise extreme caution and prudence in its operation, in view of the current global economic recession, coupled with China's increasingly unpredictable market. Nevertheless, EMP will be active on the distribution front and will be releasing films including *The Fantastic Water Babes*, *Forever Enthralled* and *W* in Hong Kong.

On the production front, EMP is currently involving in development with filmmakers including Jackie Chan, Jiang Wen, Derek Yee, Benny Chan, the Pang Brothers, and the first of five small-budget film projects with China Film Group to nurture young filmmakers. Meanwhile, EMP will continue to explore possibility of investing in international productions.

In order to gain a stronger foothold and to better distribute and market its films in China, EMP is in the process of setting up a wholly-owned distribution subsidiary in Beijing. The Group will also continue to expand its presence, while at the same time source promising talents and projects from the 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 2007 as follows:

		Three months ended	
		30th September,	
		2008	2007
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Revenue	2	23,112	25,448
Other income		1,614	768
Cost of a self-organised event		(4,336)	–
Cost of provision of event production services		(795)	(1,127)
Cost of music production and distribution		(5,688)	(13,000)
Cost of film and television programme production and distribution		(44,930)	(589)
Selling and distribution costs		(13,561)	(1,512)
Administrative expenses		(19,630)	(17,637)
Finance costs		(2,777)	(787)
Share of results of a jointly controlled entity		(158)	(50)
		<hr/>	<hr/>
Loss before taxation		(67,149)	(8,486)
Taxation	3	(39)	300
		<hr/>	<hr/>
Loss for the period		(67,188)	(8,186)
		<hr/> <hr/>	<hr/> <hr/>
Attributable to:			
Equity holders of the Company		(67,188)	(8,180)
Minority interests		–	(6)
		<hr/>	<hr/>
		(67,188)	(8,186)
		<hr/> <hr/>	<hr/> <hr/>
Loss per share	4		
– basic		(25.84) cents	(3.15) cents
		<hr/> <hr/>	<hr/> <hr/>
– diluted		N/A	N/A
		<hr/> <hr/>	<hr/> <hr/>

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.

In preparing the consolidated financial statements, the directors of the Company have given consideration to the future liquidity of the Group in light of its net current liabilities of approximately HK\$166,493,000 as at 30th September, 2008. The Group has obtained the financial support from the ultimate holding company, which will not demand for the repayment of the amount due to it until the Group has the ability to repay the amount. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

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 audited consolidated financial statements for the fifteen-month period ended 30th June, 2008.

2. Revenue

	Three months ended	
	30th September,	
	2008	2007
	HK\$'000	HK\$'000
An analysis of the Group's revenue is as follows:		
Artiste management fee income	3,900	8,813
Event production		
– income from a self-organised event	5,617	–
– income from jointly organised events	30	731
– income from provision of event production services	1,290	2,755
	6,937	3,486
Music production and distribution		
– sales of albums	4,284	4,952
– licence income	4,873	4,228
– multimedia income	842	1,281
	9,999	10,461
Film and television programme production, distribution and licensing		
– production of films and television programmes and licensing of the corresponding rights	1,776	694
– distribution of films and television programmes	500	1,994
	2,276	2,688
	23,112	25,448

3. Taxation

The taxation charge for the Period represents Hong Kong Profits Tax calculated at 16.5% of the estimated assessable profits for the Period.

The taxation credit for 2007 represented the overprovision of Hong Kong Profits Tax in the prior period.

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 per share

The calculation of basic loss per share is based on the unaudited consolidated loss attributable to equity holders of the Company for the Period of approximately HK\$67,188,000 (2007: HK\$8,180,000) and the 260,000,000 shares in issue during both periods.

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

5. Capital, reserves and minority interests

	Attributable to equity holders of the Company						Total	Minority interests	Total equity
	Share capital	Share premium	Contributed surplus	Special reserve	Translation reserve	Accumulated losses			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1st July, 2007	2,600	105,614	83,783	75,000	220	(171,485)	95,732	(1,682)	94,050
Exchange differences on translation of foreign operations	-	-	-	-	249	-	249	1	250
Loss for the period	-	-	-	-	-	(8,180)	(8,180)	(6)	(8,186)
Total recognised income (expense) for the period	-	-	-	-	249	(8,180)	(7,931)	(5)	(7,936)
At 30th September, 2007	<u>2,600</u>	<u>105,614</u>	<u>83,783</u>	<u>75,000</u>	<u>469</u>	<u>(179,665)</u>	<u>87,801</u>	<u>(1,687)</u>	<u>86,114</u>
At 1st July, 2008	<u>2,600</u>	<u>105,614</u>	<u>83,783</u>	<u>75,000</u>	<u>1,389</u>	<u>(248,657)</u>	<u>19,729</u>	<u>(1,941)</u>	<u>17,788</u>
Exchange differences on translation of foreign operations	-	-	-	-	(20)	-	(20)	-	(20)
Loss for the period	-	-	-	-	-	(67,188)	(67,188)	-	(67,188)
Total recognised expense for the period	-	-	-	-	(20)	(67,188)	(67,208)	-	(67,208)
At 30th September, 2008	<u>2,600</u>	<u>105,614</u>	<u>83,783</u>	<u>75,000</u>	<u>1,369</u>	<u>(315,845)</u>	<u>(47,479)</u>	<u>(1,941)</u>	<u>(49,420)</u>

DIVIDEND

The Board did not recommend the payment of an interim dividend for the Period (2007: Nil).

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

As at 30th September, 2008, 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	204,484,000	78.65%

Note: The shares were beneficially owned by Surplus Way. The entire issued share capital of Surplus Way was held by Jumbo Wealth (PTC) 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 Dr. Yeung Sau Shing, Albert ("Dr. Albert Yeung"). Dr. Albert Yeung, as founder of the Trust, was deemed to be interested in the 204,484,000 shares held by Surplus Way. By virtue of the aforesaid interests of Dr. Albert Yeung, Ms. Semon Luk (spouse of Dr. Albert Yeung and a director of the Company) was also deemed to be interested in the above 204,484,000 shares held by Surplus Way.

(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 (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	992,635,364	55.92%
Mr. Wong Chi Fai	Emperor International (Note (3))	Beneficial owner	15,000,000	0.84%
Ms. Fan Man Seung, Vanessa	Emperor International (Note (3))	Beneficial owner	15,000,000	0.84%

Notes:

- (1) Surplus Way was the beneficial owner of 204,484,000 shares, representing 78.65% 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. Dr. 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 Dr. Albert Yeung, Ms. Semon Luk (spouse of Dr. Albert Yeung and director of the Company) was also deemed to be interested in the share capital of Surplus Way and Jumbo Wealth.
- (2) Charron was the beneficial owner of 992,635,364 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. Dr. Albert Yeung, as founder of the Trust, was deemed to be interested in the share capital of Charron and Emperor International. By virtue of the aforesaid interests of Dr. Albert Yeung, Ms. Semon Luk (spouse of Dr. Albert Yeung and a director of the Company) was also deemed to be interested in the share capital of Charron and Emperor International.
- (3) These underlying shares represent the share options granted to directors under the share option scheme of Emperor International.

Save as disclosed above, as at 30th September, 2008, 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 September, 2008, 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, 2008, 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 (Note (1))	Beneficial owner	204,484,000	78.65%
Jumbo Wealth (Note (1))	Trustee	204,484,000	78.65%
GZ Trust Corporation ("GZ Trust") (Note (1))	Trustee	204,484,000	78.65%
Dr. Albert Yeung (Note (1))	Founder of the Trust	204,484,000	78.65%

Name	Capacity/ Nature of interests	Number of ordinary shares held	Approximate percentage holding
South China Finance and Management Limited (Note (2))	Beneficial owner	15,556,000	5.98%
South China Financial Holdings Limited (Note (2))	Interest in a controlled corporation	15,556,000	5.98%
South China Holdings Limited (Note (2))	Interest in a controlled corporation	15,556,000	5.98%
Ms. Cheung Choi Ngor (Note (2))	Interest in a controlled corporation	15,556,000	5.98%
Mr. Richard Howard Gorges (Note (2))	Interest in a controlled corporation	15,556,000	5.98%
Mr. Ng Hung Sang (Note (2))	Interest in a controlled corporation	15,556,000	5.98%

Note: (1) The shares were held by 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, the trustee of which is GZ Trust. Dr. Albert Yeung, as founder of the Trust, was deemed to be interested in the 204,484,000 shares held by Surplus Way. 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.

(2) South China Finance and Management Limited is a wholly-owned subsidiary of South China Financial Holdings Limited. East Hill Development Limited is a controlling shareholder of South China Financial Holdings Limited and is wholly-owned by Tek Lee Finance and Investment Corporation which is a wholly-owned subsidiary of South China (BVI) Limited.

Mr. Ng Hung Sang is the controlling shareholder of Eartrade Investments Limited, Parkfield Holdings Limited, Fung Shing Group Limited and Bannock Investment Limited, all of which are deemed substantial shareholders of South China Holdings Limited. Ms. Cheung Choi Ngor and Mr. Richard Howard Gorges are both substantial shareholders of Eartrade Investment Limited.

Save as disclosed above, as at 30th September, 2008, 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 Dr. 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 Dr. 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, 12th November, 2008

As at the date hereof, the Board comprises the following directors:

Non-executive Director:

Luk Siu Man, Semon (*Chairperson*)

Executive Directors:

Ng Sui Wan alias Ng Yu

Wong Chi Fai

Fan Man Seung, Vanessa

Independent Non-executive Directors:

Wong Ching Yue

Chu Kar Wing

Wong Tak Ming, Gary