EEG

EMPEROR ENTERTAINMENT GROUP LIMITED

(英皇娛樂集團有限公司)

(Incorporated in Bermuda with limited liability)



Placing and Public Offer

Sponsor and Bookrunner

BNP PARIBAS PEREGRINE

Joint Lead Managers

BNP PARIBAS PEREGRINE

EMPEROR SECURITIES LIMITED

Financial Adviser to the Group

EMPEROR CAPITAL LIMITED

IMPORTANT

If you are in any doubt about this prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.

EEG

EMPEROR ENTERTAINMENT GROUP LIMITED

英皇娛樂集團有限公司*

(Incorporated in Bermuda with limited liability)

LISTING ON
THE GROWTH ENTERPRISE MARKET OF
THE STOCK EXCHANGE OF HONG KONG LIMITED

PLACING AND PUBLIC OFFER

Number of Offer Shares under the Share Offer	**:**	**96,000,000 (subject to Over-allotment Option)**
Number of Placing Shares	**:**	**76,800,000 (subject to reallocation)**
Number of Public Offer Shares	**:**	**19,200,000 (subject to reallocation)**
Issue Price	**:**	**not more than HK$1.08 per Share and not less than HK$1.03 per Share**
Nominal Value	**:**	**HK$0.01 each**
Stock Code	**:**	**8078**

Sponsor and Bookrunner

BNP PARIBAS PEREGRINE

Joint Lead Managers

BNP PARIBAS PEREGRINE **Emperor Securities Limited**

Co-Managers

CEF Capital Limited **Celestial Capital Limited**
Shenyin Wanguo Capital (H.K.) Limited **South China Securities Limited**
Tai Fook Securities Company Limited

Financial adviser to the Group

Emperor Capital Limited

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed ''Documents delivered to the Registrar of Companies and available for inspection'' in appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). A copy of this prospectus, together with copies of the application forms, has also been filed with the Registrar of Companies in Bermuda in accordance with Section 26 of the Companies Act 1981 of Bermuda. The Registrar of Companies in Hong Kong, the Registrar of Companies in Bermuda and the Securities and Futures Commission of Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Issue Price is expected to be fixed by agreement between BNP Paribas Peregrine Securities Limited, on behalf of the Underwriters, and the Company at the Price Determination Time and will be not more than HK$1.08 per Share and is expected to be not less than HK$1.03 per Share. The Price Determination Time is 1:00 p.m. on 13th December, 2000. If BNP Paribas Peregrine Securities Limited, on behalf of the Underwriters, and the Company are unable to reach agreement on the Issue Price, the Share Offer will not become unconditional and will lapse. Investors applying for Public Offer Shares must pay the maximum Issue Price of HK$1.08 per Share, together with brokerage of 1% and Stock Exchange transaction levy of 0.01%. The Underwriting Agreement was entered into on 7th December, 2000, subject to the abovementioned agreement to be reached on the Issue Price.

8th December, 2000

** For identification purpose only*

IMPORTANT

Characteristics of The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited:

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM Website in order to obtain up-to-date information on GEM-listed issuers.

,2000

Application lists open *(Note 1)* ..... 11:45 a.m. on 13th December

Latest time to lodge **WHITE** and **YELLOW** application forms ..... 12:00 noon on 13th December

Application lists close ..... 12:00 noon on 13th December

Price Determination Time ..... 1:00 p.m. on 13th December

Announcement of the Issue Price, the level of indication of interest in the Placing, the results of applications in respect of the Public Offer and basis of allotment of the Public Offer Shares and the number of Shares (if any) reallocated from the Public Offer to the Placing to be published on the GEM Website, in the Hong Kong iMail (in English) and the Hong Kong Daily News (in Chinese) ..... 15th December

Despatch of share certificates and refund cheques in respect of wholly or partially unsuccessful applications on or before *(Note 2)* ..... 15th December

Dealings in Shares on GEM to commence on ..... 19th December

Notes:

1. If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force at any time between 9:00 a.m. to 12:00 noon on 13th December, 2000, the application lists will not open on that day. Further information is set out in the paragraph headed "Effect of bad weather on the opening of the application lists" under the section headed "How to apply for the Public Offer Shares" in this prospectus.

2. If you are applying for 1,000,000 Public Offer Shares or above using a WHITE application form and have indicated on your application form that you will collect your share certificates and/or refund cheques (if any), you may collect them in person from Secretaries Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong, between 9:00 a.m. and 1:00 p.m. on 15th December, 2000 or on the date notified by the Company in the newspapers and on the GEM Website as the date of despatch of share certificates and/or refund cheques (if any). You must show your identification documents acceptable to Secretaries Limited to collect your share certificates. If you do not so collect your share certificates and/or refund cheques (if any), they will be sent to the address on your application form shortly after the date of despatch, by ordinary post and at your own risk. If you have not indicated on your application form that you will collect your share certificates and/or refund cheques (if any), then your share certificates and/or refund cheques (if any) will be sent to the address on your application form on the date of despatch, by ordinary post and at your own risk.

3. All times refer to Hong Kong local time, except as otherwise stated.

For details of the structure of the Share Offer, including conditions thereto, see the section headed "Structure and conditions of the Share Offer" in this prospectus.

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You should rely only on the information contained in this prospectus and the application forms to make your investment decision.

The Company has not authorised anyone to provide you with information which is different from the information contained in this prospectus.

Any information or representation not made in this prospectus must not be relied on by you as having been authorised by the Company, the Sponsor, the Underwriters, any of their respective directors, or any other person involved in the Share Offer.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the prospectus in its entirety before you decide to invest in the Offer Shares.

There may be greater risk associated with any investment in companies listed on GEM than companies listed on the Main Board. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk factors". You should read carefully before you decide to invest in the Offer Shares.

BUSINESS

The Group's aim is to become a leading music entertainment and artiste management group engages principally in (i) music production and distribution; (ii) artiste management; and (iii) event production in the Greater China region with primary focus in Hong Kong. The following table outlines the existing principal business activities of the Group:

Business activities	**Description**
Music production and distribution	● Selection of artistes and songs, setting of marketing strategy, music style and budget, and preparing for the production; ● production and distribution of music catalogues of the Group's own artistes; ● distribution of music catalogues licensed from third parties; ● licensing of the Group's albums and catalogues licensed from third parties for overseas distribution; and ● licensing of the Group's songs and/or lyrics.
Artiste management	Providing training, manager and agency services to both new artistes and established artistes.
Event production	Organising and producing music concerts and shows.

COMPETITIVE STRENGTHS

Although competition within the music entertainment industry is intense, the Directors believe that the Group has the necessary attributes to become a leading music entertainment and artiste management group in the Greater China region with primary focus in Hong Kong. In particular, the Directors consider that the Group has the following strengths:

- having established itself in (i) music production and distribution business, which is evidenced by three platinum awards and one double platinum award having been granted for music albums released by it in Hong Kong since 1st April, 1998; (ii) artiste management business with its current team of contracted artistes; and (iii) event production business, which is evidenced by having organised 12 concerts since 1st April, 1998;

- having an established record in identifying and introducing new artistes to the market and promoting existing artistes;

- having created a strong foundation for future growth and expansion through the synergy of the Group's music production and distribution business, artiste management business and event production business;

- having a management team with extensive experience in the music entertainment and artiste management businesses, which has demonstrated a good knowledge of the local music market and is capable of capturing the latest music trend and fashion; and

- leveraged on its achievement in each of its businesses in Hong Kong, having built up a strong foundation for expanding into other Asian markets.

REORGANISATION

The Company's reorganisation process is detailed in appendix V to this prospectus. As a result of the Reorganisation and the Capitalisation Issue, the existing shareholders' interest in the Company as at the date of this prospectus are summarised as follows:

Name of shareholder	**Date of entry**	**Shareholding immediately after completion of the Capitalisation Issue, the Pre-IPO Issue and the Share Offer**		**Total cost per Share**	**Investment amount**
		Number of Shares	*%* [8]	*HK$*	*HK$*
Questrel	30th March, 1998	139,370,371 [5][6]	58.07	0.71 [1][2][3][4][5]	98,962,946.65 [1][2][3][4][5]
Mr. Yeung [9]	30th March, 1998	139,370,371	58.07	0.71	98,962,946.65
Ms. Luk Siu Man, Semon [9]	30th March, 1998	139,370,371	58.07	0.71	98,962,946.65
Mr. Lee [7]	30th November, 2000	4,629,629	1.93	0.01	46,296.30

Notes:

1. In 1994, Hapus Enterprise Limited acquired a 51% equity interests in Fitto Entertainment BVI, details of which are set out in the paragraph headed "History and development" under the section headed "Business" in this prospectus. On 30th March, 1998, Hapus Enterprises Limited, the then controlling shareholder of Fitto Entertainment BVI, sold 9,600 shares in Fitto Entertainment BVI then held by it to Eternal Best Limited, (a wholly-owned subsidiary of Questrel) and all outstanding debts of Fitto Entertainment BVI due to Hapus Enterprises Limited of approximately HK$88.4 million at HK$1.0. This represents 96% interest in Fitto Entertainment BVI.

2. On 1st April, 1999, Eternal Best Limited subscribed for 1,000,000 new shares of Fitto Entertainment BVI at the consideration of US$1 million, which was satisfied by capitalising the outstanding amount due from Fitto Entertainment BVI to Eternal Best Limited of approximately HK$7.8 million. Accordingly, the shareholding of Eternal Best Limited in Fitto Entertainment BVI increased from 96% to 99.96%.

3. On 31st March, 2000, one share of US$1.00 in Mile Oak Profits Limited, the intermediate holding company of the Group, was allotted and issued to Questrel for cash at US$1.00. On the same date, Questrel transferred its two shares of US$1.00 each in Expert Help Profits Limited and its one share of US$1.00 in EEG Web Limited to Mile Oak Profits Limited in consideration of and in exchange for which Mile Oak Profits Limited allotted and issued, credited as fully paid, a total of three shares to Questrel on 31st March, 2000. On 30th June, 2000, Questrel transferred its one share of US$1.00 in EEG Limited to Mile Oak Profits Limited in consideration of and in exchange for which Mile Oak Profits Limited allotted and issued, credited as fully paid, one share to Questrel on 30th June, 2000.

4. On 30th November, 2000, one share of US$1.00 in Mile Oak Profits Limited was alloted and issued, credited as fully paid, to Questrel to capitalise the sum of HK$91,162,906.65 due to Questrel from Mile Oak Profits Limited.

5. On 30th November, 2000, pursuant to the Reorganisation, Questrel transferred to the Company, six shares, being the entire issued share capital in Mile Oak Profits Limited, in consideration of and in exchange for which the Company (i) allotted and issued, credited as fully paid, one Share to Questrel and (ii) credited as fully paid at par the 10,000,000 Shares allotted and issued nil paid to Questrel on 15th November, 2000.

6. Pursuant to the Capitalisation Issue approved by the Board on the same date, 129,370,370 Shares were conditionally issued to Questrel. Subject to the conditions set forth under "Conditions of the Share Offer" in the section headed "Structure and conditions of the Share Offer" in this prospectus, these Shares are expected to be alloted and issued on or before 15th December, 2000.

7. The Pre-IPO Issue was conditionally approved by the Directors on 30th November, 2000 and completion of which is conditional upon the same conditions as stated under "Conditions of the Share Offer" in the section headed "Structure and conditions of the Share Offer" in this prospectus. Subject to the conditions set forth under "Conditions of the Share Offer" in the section headed "Structure and conditions of the Share Offer" in this prospectus, these Shares are expected to be allotted and issued on or before 15th December, 2000.

8. Assuming the Over-allotment Option is not exercised

9. Questrel is a controlling shareholder of the Company and is interested in 139,370,371 Shares. Mr. Yeung, spouse of Ms. Luk Siu Man, Semon, is deemed to be interested in 139,370,371 Shares held by Questrel, a company controlled by him. As such, Mr. Yeung is deemed to be a controlling shareholder of the Company. As Ms. Luk Siu Man, Semon is the spouse of Mr. Yeung, she is also deemed to be interested in these Shares.

RESTRICTION ON DISPOSAL OF SHARES

Name of shareholder	Shareholding immediately after completion of the Capitalisation Issue, the Pre-IPO Issue and the Share Offer		Lock up period commencing from the Listing Date
	Number of Shares	*%*	
Questrel [(1)]	139,370,371	58.07	12 months [(3)]
Mr. Yeung [(1)]	139,370,371	58.07	12 months [(3)]
Ms. Luk Siu Man, Semon [(1)]	139,370,371	58.07	12 months [(3)]
Mr. Lee [(2)]	4,629,629	1.93	6 months [(3)]

Note:

1. Questrel is a controlling shareholder of the Company and is interested in 139,370,371 Shares. Mr. Yeung, spouse of Ms. Luk Siu Man, Semon, is deemed to be interested in 139,370,371 Shares held by Questrel, a company controlled by him. As such, Mr. Yeung is deemed to be a controlling shareholder of the Company. As Ms. Luk Siu Man, Semon is the spouse of Mr. Yeung, she is also deemed to be interested in these Shares. The appointers of the A & G Trust undertake to procure that the shares in Questrel would not be disposed to anyone or distributed to the beneficiaries or otherwise disposed of during the Six Month Period and the Second Six Month Period.

2. Mr. Lee is interested in 4,629,629 Shares under the Pre-IPO Issue.

3. Questrel, Mr. Yeung, Ms. Luk Siu Man, Semon and Mr. Lee are the Initial Management Shareholders and have undertaken to the Company and the Stock Exchange not to dispose of (or enter into any agreement to dispose of) or permit the registered holder to dispose of (or enter into any agreement to dispose of) any of their direct or indirect interest in their Shares within the Six Month Period. Questrel, Mr. Yeung and Ms. Luk Siu Man, Semon have further undertaken to the Company and the Stock Exchange not to dispose of (or enter into any agreement to dispose of) or permit the registered holder to dispose of (or enter into any agreement to dispose of) any of their direct or indirect interest in these Shares during the Second Six Month Period that will result in Questrel, Mr. Yeung and Ms. Luk Siu Man, Semon holding less than 35% of direct or indirect interest in the issued share capital of the Company. Further details are set out in the paragraph headed "Lock-up waiver" under the section headed "Waivers from compliance with the GEM Listing Rules and Companies Ordinance" in this prospectus.

BUSINESS STRATEGIES

The Director's strategies to achieve the Group's objective of becoming a leading music entertainment and artiste management group in the principal areas of (i) music production and distribution; (ii) artiste management; and (iii) event production in the Greater China region with primary focus in Hong Kong include:

- enhancing its artiste base through recruiting and training new artistes, and contracting additional established artistes in the industry;
- expanding into the Taiwan and Mainland China markets;
- licensing with additional international record companies; and
- strengthening the Group's songs and lyrics library.

TRADING RECORD

The following is a summary of the combined results of the Group for each of the two years ended 31st March, 2000 and the three months ended 30th June, 2000, which have been extracted from the accountants' report set out in appendix I to this prospectus.

	Year ended 31st March, 1999	Year ended 31st March, 2000	Three months ended 30th June, 2000
	HK$'000	*HK$'000*	*HK$'000*
Turnover	12,253	52,082	21,929
Loss before taxation	(19,949)	(27,628)	(1,498)
Taxation	—	(5)	—
Loss for the year/period	(19,949)	(27,633)	(1,498)
Dividends	—	—	—

Under paragraph 27 of the Third Schedule to the Companies Ordinance, the Company is required to set out in its listing document a statement as to its gross trading income or sales turnover for each of the three preceding financial years. Paragraph 31 of the Third Schedule to the Companies Ordinance requires the Company to set out a report prepared by its auditors and reporting accountants, containing its financial information in respect of each of the three financial years immediately preceding the issue of the listing document. The Securities and Futures Commission has granted to the Company an exemption from strict compliance with Section 342(1) of the Companies Ordinance, on the ground that compliance with paragraphs 27 and 31 of the Third Schedule of the Companies Ordinance would be unduly burdensome for the Company, such that the Company is only required to include in this prospectus its trading record, financial results and information for each of the two years ended 31st March, 2000 and the three months ended 30th June, 2000.

PROFIT FORECAST FOR THE YEAR ENDING 31ST MARCH, 2001

Forecast combined profit after taxation but before extraordinary items *(Note 1)* ..... not less than HK$7.0 million

Forecast earnings per Share

(a) weighted average *(Note 2)* ..... 4.15 cents

(b) pro forma fully diluted *(Note 3)* based on Issue Price of HK$1.03 per Share ..... 4.21 cents

pro forma fully diluted *(Note 3)* based on Issue Price of HK$1.08 per Share ..... 4.31 cents

OFFER STATISTICS

	Based on an Issue Price of HK$1.03 per Share *HK$*	**Based on an Issue Price of HK$1.08 per Share** *HK$*
Issue Price	1.03	1.08
Market capitalisation *(Note 4)*	247.2 million	259.2 million
Prospective price/earnings multiple		
(a) weighted average *(Note 5)*	24.8 times	26.0 times
(b) pro forma fully diluted *(Note 6)*	24.5 times	25.1 times
Adjusted net tangible asset value per Share *(Note 7)*	39 cents	41 cents

Notes:

1. The bases on which the forecast combined profit after taxation but before extraordinary items for the year ending 31st March, 2001 has been prepared are set out in the paragraph headed "Bases and assumptions" in appendix II to this prospectus. The Directors are not aware of any extraordinary items which have arisen or are likely to arise in respect of the year ending 31st March, 2001.

2. The calculation of the forecast earnings per Share on a weighted average basis is based on the forecast combined profit after taxation but before extraordinary items of the Group for the year ending 31st March, 2001 and the weighted average number of 168,870,016 Shares expected to be in issue during the year, but takes no account of (i) any Shares which may be issued upon the exercise of the Over-allotment Option; (ii) any Shares which may fall to be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Schemes; or (iii) any Shares which may be allotted and issued or repurchased by the Company pursuant to the mandates referred to in the paragraph headed "Written resolutions of the sole shareholder of the Company passed on 30th November, 2000" in the section headed "Further information about the Company and its subsidiaries" in appendix V to this prospectus.

3. The calculation of the forecast pro forma fully diluted earnings per Share on a pro forma fully diluted

basis is based on the forecast combined profit after taxation but before extraordinary items for the year ending 31st March, 2001 assuming that the Company had been listed since 1st April, 2000 and a total of 240,000,000 Shares had been in issue throughout the year and interest income that would have been earned if the estimated net proceeds from the Share Offer, based on the stated range of the Issue Price of HK$1.03 and HK$1.08 per Share were received on 1st April, 2000 and had earned interest at the rate (net of tax) of 5% per annum, but takes no account of (i) any Shares which may be issued upon the exercise of the Over-allotment Option; (ii) any Shares which may be issued upon the exercise of options which may be granted under the Share Option Schemes; or (iii) any Shares which may be alloted and issued or repurchased by the Company pursuant to the mandates referred to in the paragraph head "Written resolutions of the sole shareholder of the Company passed on 30th November, 2000" in the section headed "Further information about the Company and its subsidiaries" in appendix V to this prospectus.

4. The calculation of market capitalisation of the Shares is based on the Issue Price and 240,000,000 Shares in issue immediately after the completion of the Capitalisation Issue, the Share Offer and the Pre-IPO Issue but takes no account of (i) any Shares which may be issued upon the exercise of the Over-allotment Option; (ii) any Shares which may be issued upon the exercise of options which may be granted under the Share Option Schemes; or (iii) any Shares which may be allotted and issued or repurchased by the Company pursuant to the mandates referred to the paragraph headed "Written resolutions of the sole shareholder of the Company passed on 30th November, 2000" in the section headed "Further information about the Company and its subsidiaries" in appendix V to this prospectus.

5. The calculation of the prospective price/earnings multiple on a weighted average basis is based on the weighted average forecast earnings per Share of 4.15 cents and on the stated range of the Issue Price of HK$1.03 and HK$1.08 per Share.

6. The calculation of the prospective price/earnings multiple on a pro forma fully diluted basis is based on the pro forma fully diluted forecast earnings per Share of 4.21 cents and 4.31 cents and on the stated range of the Issue Price of HK1.03 and HK$1.08 per Share respectively.

7. The adjusted net tangible asset value per Share has been arrived at after the adjustments referred to in the paragraph headed "Adjusted net tangible assets" under the section headed "Financial information" of this prospectus and on the basis of a total of 240,000,000 Shares in issue and to be issued immediately following the completion of the Share Offer, Capitalisation Issue and the Pre-IPO Issue but takes no account of (i) any Shares which may be issued upon the exercise of the Over-allotment Option (ii) any Shares which may be allotted and issued upon the exercise of options that may be granted under the Share Option Schemes; or (iii) any Shares which may be alloted and issued or repurchased by the Company pursuant to the mandates referred to the paragraph headed "Written resolutions of the sole shareholder of the Company passed on 30th November, 2000" in the section headed "Further information about the Company and its subsidiaries" in appendix V to this prospectus.

USE OF PROCEEDS

The net proceeds from the Share Offer, after deducting related expenses, are estimated to be approximately HK$88 million (assuming that the Over-allotment Option is not exercised) based on the maximum Issue Price of HK$1.08 per Share. If the Over-allotment Option is exercised in full, the net proceeds (based on the above Issue Price) will increase to approximately HK$103 million. The Directors presently intend to apply such net proceeds as follows:

- approximately HK$6 million will be used to further the Group's plan of establishing its offices in Taiwan and Mainland China during the period from 1st April, 2001 to 30th September, 2001;

- approximately HK$60 million will be used in the Group's music production and distribution business. It is expected that approximately HK$5 million, HK$10 million, HK$12 million, HK$15 million and HK$18 million will be utilised for the periods from the Latest Practicable Date to 31st March, 2001, from 1st April, 2001 to 30th September, 2001, from 1st October, 2001 to 31st March, 2002, from 1st April, 2002 to 30th September, 2002 and from 1st October, 2002 to 31st March, 2003 respectively;

- approximately HK$11 million will be used in the Group's event production business. It is expected that approximately HK$1 million, HK$3 million, HK$3 million, HK$2 million and HK$2 million will be utilised for the periods from the Latest Practicable Date to 31st March, 2001, from 1st April, 2001 to 30th September, 2001, from 1st October, 2001 to 31st March, 2002, from 1st April, 2002 to 30th September, 2002 and from 1st October, 2002 to 31st March, 2003 respectively;

- approximately HK$4 million will be used to further invest in eFoodland and eStardream. It is expected that approximately HK$1.00 million, HK$0.75 million, HK$0.75 million, HK$0.75 million and HK$0.75 million will be utilised for the periods from the Latest Practicable Date to 31st March, 2001, from 1st April, 2001 to 30th September, 2001, from 1st October, 2001 to 31st March, 2002, from 1st April, 2002 to 30th September, 2002 and from 1st October, 2002 to 31st March, 2003 respectively;

- the balance of approximately HK$7 million will be used as general working capital of the Group; and

- in the event that the Over-allotment Option is exercised in full, of the additional net proceeds of approximately HK$15 million, approximately HK$12 million will be used in the music production and distribution business, approximately HK$2 million will be used in the event production business and approximately HK$1 million will be used as general working capital of the Group.

To the extent that the net proceeds of the Share Offer are not immediately required for the above purposes, it is the present intention of the Directors that such proceeds should be placed on short-term deposit with banks or financial institutions in Hong Kong. In the event that there are material changes or modifications to the use of proceeds as described above, an announcement will be made by the Company as and when appropriate.

In the event the Issue Price is less than HK$1.08 such that the net proceeds from the Share Offer will be less than HK$88 million, the net proceeds to be applied for general working capital of the Group stated above shall be reduced accordingly.

SUMMARY OF RISK FACTORS

The Directors consider that there are certain significant risks involved in the Group's business and an investment in the Shares, which include those set out in the section headed "Risk factors" of this prospectus. These risks can be categorised into: (i) risks relating to the Group; (ii) risks relating to the industry; (iii) risks relating to the Shares; and (iv) issues to consider in relation to statements made in this prospectus, and are summarised as follows:

Risks relating to the Group

- The Group's expenses in contracting an established artiste are substantial;
- The Group's revenue is mainly derived from a few artistes;
- The Group depends on its artistes complying with their contractual obligations to the Group;
- The Group depends on its key executives and personnel;
- The Group faces intense competition and may be subject to competition from companies with greater resources;
- The Group's artistes in Hong Kong may not become popular in Taiwan and Mainland China;
- The Group may not be able to successfully implement its strategy for future growth; and
- The Group's strategy of expansion in Mainland China will expose the Group to further risks.

Risks relating to the industry

- The music entertainment industry is highly volatile;
- The music entertainment industry is sensitive to economic and financial fluctuations; and
- The Group's business may be adversely affected by pirated discs and downloading of illegal MP3.

Risks relating to the Shares

- An active trading market for the Shares may not develop and their market price may be subject to volatility;
- Anyone who purchases the Offer Shares will experience immediate and substantial dilution in the net tangible asset value of the Shares; and
- The shareholders' interests in the Company may be diluted in the future.

Issues to consider in relation to statements made in this prospectus

- Certain statistics are derived from publications which have not been independently verified by the Group, the Underwriters or their respective advisers; and
- Forward-looking statements contained in this prospectus may not be accurate.

In this prospectus, unless the context otherwise requires, the following expressions have the following meanings:

''Active Pace''	Active Pace Investment Limited, a property investment company, incorporated in Hong Kong and an indirect wholly owned subsidiary of Emperor International
''Associate(s)''	has the meaning ascribed thereto in the GEM Listing Rules
''BNP Paribas Peregrine''	BNP Paribas Peregrine Capital or BNP Paribas Peregrine Securities, as the context so requires
''BNP Paribas Peregrine Capital'' or ''Sponsor''	BNP Paribas Peregrine Capital Limited, the sponsor of the Share Offer, and a registered investment adviser and a registered dealer under the Securities Ordinance
''BNP Paribas Peregrine Securities''	BNP Paribas Peregrine Securities Limited, one of the joint lead managers of the Share Offer and a registered dealer under the Securities Ordinance
''Board''	the board of directors of the Company
''business day''	any day (other than a Saturday or Sunday) on which banks in Hong Kong are generally open for banking business
''Bye-laws''	bye-laws of the Company adopted by a written resolution of the sole shareholder of the Company passed on 30th November, 2000, a summary of which is set out in the section headed ''Constitution of the Company'' in appendix IV to this prospectus
''Capitalisation Issue''	an issue of Shares to be made upon a capitalisation of certain sums standing to the credit of the share premium account of the Company as referred to in the paragraph headed ''Written resolutions of the sole shareholder of the Company passed on 30th November, 2000'' under the section headed ''Further information about the Company and its subsidiaries'' in appendix V to this prospectus
''CASH''	Composers and Authors Society of Hong Kong Limited, an organisation aimed at administering and enforcing on a collective basis the rights of composers and authors for their musical and lyrics works subsisting under the copyright law of Hong Kong
''CCASS''	the Central Clearing and Settlement System established and operated by Hongkong Clearing
''Channel V''	the television channel of the Satellite Television Asian Region Limited (STAR TV)

''Companies Act''	the Companies Act 1981 of Bermuda
''Companies Ordinance''	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
''Company''	Emperor Entertainment Group Limited, a company incorporated in Bermuda with limited liability on 17th October, 2000 under the Companies Act
''Connected Person''	has the meaning ascribed thereto under Chapter 20 of the GEM Listing Rules, including Associates of Questrel, Mr. Yeung and Ms. Luk Siu Man, Semon
''Controlling Shareholders''	Mr. Yeung, Ms. Luk Siu Man, Semon and Questrel
''Copyright Ordinance''	the Copyright Ordinance (Chapter 528 of the Laws of Hong Kong)
''CRHK''	the radio channels of the Hong Kong Commercial Broadcasting Company Limited
''Director(s)''	the director(s) of the Company
''eDaily''	eDaily Limited, a company incorporated in Hong Kong with limited liability which is indirect owned as to 50% by Emperor International. eDaily is principally engaged in internet business
''eFoodland''	eFoodland Limited, a company incorporated in Hong Kong with limited liability which is indirect owned as to 20% by the Company. eFoodland is principally engaged in operating a multi-lingual website under the domain name ''*www.efoodland.cc*''
''Emperor Advertising''	Emperor Advertising Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly owned subsidiary of Emperor International. Emperor Advertising is principally engaged in advertising agency business
''Emperor International''	Emperor International Holdings Limited, a company incorporated in Bermuda with limited liability and owned as to 50.02% of its issued share capital by Questrel and the securities of which are listed on the Main Board. Emperor International is principally engaged in property investment and development, wholesaling and retailing of furniture, hotel operations, and securities trading and brokerage services
''Emperor Management''	Emperor (Investment) Management Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly owned subsidiary of Emperor International. Emperor Management is principally engaged in provision of management services

"Emperor Movie"	Emperor Movie Holdings Limited, an investment holding company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of Questrel
"Emperor Securities"	Emperor Securities Limited, one of the joint lead managers of the Share Offer and a registered dealer under the Securities Ordinance and an indirect wholly owned subsidiary of Emperor International
"Employee Share Option Scheme"	the share option scheme conditionally approved by the Company for the granting of options to full-time employees of the Group to subscribe for Shares, details of which are set out in the section headed "Employee Share Option Scheme" in appendix V to this prospectus
"eStardream"	eStardream Limited, a company incorporated in Hong Kong with limited liability which is indirectly owned as to 50% by the Company. eStardream is principally engaged in operating a multi-lingual website under the domain name "*www.eStardream.cc*"
"Fitto Entertainment"	Fitto Entertainment Company Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company, was the then wholly-owned subsidiary of Fitto Entertainment BVI before the Reorganisation. Fitto Entertainment is principally engaged in music production and distribution, artiste management and licensing under the ***Fitto*** label
"Fitto Entertainment BVI"	Fitto Entertainment Group Limited, an investment holding company incorporated in the British Virgin Islands with limited liability and an 99.96% indirectly owned subsidiary of Questrel
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Committee"	the listing committee of the Stock Exchange with responsibility for GEM
"GEM Listing Rules"	the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
"GEM Website"	the GEM website located at *www.hkgem.com*
"Glorious Twelfth"	Glorious Twelfth Holdings Limited, an investment holding company incorporated in the British Virgin Islands with limited liability and an indirect wholly owned subsidiary of Emperor International
"Graneagle"	Graneagle Holdings Limited (formerly known as "Hong Kong Daily News Holdings Limited"), a company incorporated in Bermuda and the securities of which are listed on the Main Board. Graneagle is principally engaged in manufacturing ladies' apparel

"Greater China"	the region of the PRC, Hong Kong and Taiwan
"Group"	the Company and its subsidiaries or where the context so requires, in respect of the period prior to the Company becoming the holding company of its present subsidiaries, the present subsidiaries of the Company
"Hongkong Clearing"	Hong Kong Securities Clearing Company Limited
"Hong Kong GAAP"	generally accepted accounting principles in Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"IFPI"	International Federation of the Phonographic Industry, an organisation which represents the international recording industry to ensure the protection of music copyright and the promotion of the value of music
"Initial Management Shareholders"	the Management Shareholders of the Company immediately prior to the date of this prospectus, being Mr. Yeung, Ms. Luk Siu Man, Semon, Questrel and Mr. Lee
"Issue Price"	the price (not less than HK$1.03 and not exceeding HK$1.08) per Share (exclusive of brokerage and the Stock Exchange transaction levy) at which the Shares are to be subscribed and issued under the Share Offer, as to be fixed by agreement between BNP Paribas Peregrine Securities and the Company
"Latest Practicable Date"	1st December, 2000, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information contained herein
"Linkpac"	Linkpac Development Limited, a property investment company, incorporated in Hong Kong with limited liability and an indirect wholly owned subsidiary of Emperor International
"Listing Date"	the date trading and dealings in the Shares commence on GEM
"Main Board"	the stock market operated by the Stock Exchange, which excludes GEM and the options market
"Main Board Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Management Shareholder"	any person who is (or any group of persons who together are) entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of an issuer and who is (or are) able, as a practical matter, to direct or influence the management of the issuer

"Metro 997"	997 Hit Radio, being one of the radio channels of Metro Broadcast Corporation Limited
"Mr. Lee"	Mr. Lee Tsun, Frankie, an Initial Management Shareholder, an executive Director and the Chief Executive Officer of the Group
"Mr. Yeung"	Mr. Yeung Sau Shing, Albert who is deemed to be a controlling shareholder of Emperor International and the Company, details of which are set out in the paragraph headed "Connected transactions" under the section headed "Business" in this prospectus
"Non-exempt Continuing Connected Transactions"	has the meaning ascribed thereto under Rule 20.26 of the GEM Listing Rules
"Offer Shares"	the Public Offer Shares and the Placing Shares, where relevant, including any additional Shares to be issued pursuant to the exercise of the Over-allotment Option
"Option Scheme General Mandate Limit"	the limit which shareholders of the Company may authorise the Directors to grant options under the Share Option Schemes and any other schemes entitling participants to acquire shares in the Company pursuant to the exercise of options, being up to an aggregate of 10% of the issued share capital of the Company
"Over-allotment Option"	the option granted by the Company to the Underwriters, exercisable by BNP Paribas Peregrine Securities (on behalf of the Underwriters) pursuant to the Underwriting Agreement to require the Company to issue up to 14,400,000 additional new Shares, representing 15% of the Shares initially available under the Share Offer, to cover over-allocations in the Placing
"People Music"	People Music Limited, a company incorporated in Hong Kong with limited liability in which Mr. Lee is the majority shareholder. People Music is principally engaged in music publishing and administration
"Placing"	the conditional placing of the Placing Shares at the Issue Price, as described in the section headed "Structure and conditions of the Share Offer" in this prospectus
"Placing Shares"	76,800,000 new Shares (subject to Over-allotment Option adjustment and reallocation) initially being offered by the Company for subscription under the Placing as described in the section headed "Structure and conditions of the Share Offer" in this prospectus

"Placing Underwriters"	BNP Paribas Peregrine Securities, Emperor Securities, CEF Capital Limited, Celestial Capital Limited, Shenyin Wanguo Capital (H.K.) Limited, South China Securities Limited and Tai Fook Securities Company Limited
"PRC" or "Mainland China"	the People's Republic of China and for the purposes of this prospectus, excludes Hong Kong and the Macau Special Administrative Region of the PRC
"Pre-IPO Issue"	the allotment and issue on or before 15th December, 2000 of an aggregate of 4,629,629 Shares to Mr. Lee at a subscription price of HK$0.01 per Share, which is equal to the par value of the Shares and substantially below the maximum Issue Price of HK$1.08 per share and is payable in cash prior to the listing of the Shares on GEM, in recognition of his contribution to the growth of the Group and as the necessary incentive to retain him within the Group. The allotment and issue is conditional upon the same conditions as set out under the paragraph headed "Conditions of the Share Offer" in the section headed "Structure and conditions of the Share Offer" in this prospectus
"Pre-IPO Share Option Scheme"	the share option scheme conditionally approved by the Company on 30th November, 2000, the principal terms of which are summarised in the section headed "Pre-IPO Share Option Scheme" in appendix V to this prospectus
"Price Determination Agreement"	the agreement to be entered into between the Company and BNP Paribas Peregrine Securities (on behalf of the Underwriters) relating to the fixing of the Issue Price
"Price Determination Time"	1:00 p.m. on 13th December, 2000, on which the Issue Price is fixed for the purposes of the Share Offer
"Public Offer"	the offer of the Public Offer Shares at the Issue Price for subscription by the public on and subject to the terms and conditions stated herein and in the related application forms
"Public Offer Shares"	19,200,000 new Shares (subject to reallocation) initially being offered by the Company for subscription under the Public Offer as described in the section headed "Structure and conditions of the Share Offer" in this prospectus
"Public Offer Underwriters"	BNP Paribas Peregrine Securities, Emperor Securities, CEF Capital Limited, Celestial Capital Limited, Shenyin Wanguo Capital (H.K.) Limited, South China Securities Limited and Tai Fook Securities Company Limited

"Questrel"	Questrel Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and is beneficially owned by the trustee of a discretionary trust related to Mr. Yeung, details of which are set out in the paragraph headed "Connected transactions" under the section headed "Business" in this prospectus
"Record Breakers"	Record Breakers Limited, an investment holding company incorporated in the British Virgin Islands with limited liability and an indirect wholly owned subsidiary of Emperor International
"Relevant Securities"	has the meaning ascribed thereto under Rule 13.15 of the GEM Listing Rules
"Reorganisation"	the corporate reorganisation of the companies now comprising the Group in preparation for the listing of the Shares on GEM, details of which are set out in the paragraph headed "Group reorganisation" in the section headed "Further information about the Company and its subsidiaries" in appendix V to this prospectus
"RTHK"	the radio channels of the Radio Television Hong Kong
"SDI Ordinance"	the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
"Second Six Month Period"	the further six month period immediately following the expiration of the Six Month Period
"Securities Ordinance"	the Securities Ordinance, Chapter 333 of the Laws of Hong Kong
"Share(s)"	share(s) of HK$0.01 each in the share capital of the Company
"Share Offer"	the Public Offer and the Placing
"Share Option Schemes"	the Pre-IPO Share Option Scheme and the Employee Share Option Scheme
"Six Month Period"	the period of six months commencing from the Listing Date
"sq.ft."	square feet
"sq.m."	square metres
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Strong Time"	Strong Time Investments Limited, a company owned as to 50% by Mr. Yeung Hoi Sing, Sonny and as to the balance of 50% by Mr. Yeung Lik Shing, Michael, both are brothers of Mr. Yeung

''subsidiary''	a subsidiary as defined in section 2 of the Companies Ordinance
''Takeovers Code''	the Hong Kong Code on Takeovers and Mergers
''Trustee''	F&M (Nominees) Limited, the trustee which owns the legal title to the entire issued share capital of Questrel
''TVB''	the broadcasting station of Television Broadcasts Limited, the shares of which are listed on the Main Board
''Underwriters''	the Public Offer Underwriters and the Placing Underwriters
''Underwriting Agreement''	the conditional placing and underwriting agreement dated 7th December, 2000 entered into between, inter alia, the Company and the Underwriters relating to the Share Offer, as described in the section headed ''Underwriting'' in this prospectus
''US'' or ''United States''	the United States of America
''Very Sound''	Very Sound Investments Limited, a property investment company incorporated in Hong Kong with limited liability and indirectly wholly owned by Emperor International
''Warner''	Warner/Chappell Music, HK., Ltd., a company engaged in music publishing and is independent of the directors, chief executive or substantial shareholders of the Company, any of its subsidiaries and their respective Associates other than the entering into of the sub-publishing and administrative agreement with People Music
''HK$'' and ''cents''	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
''NT$''	New Taiwan dollars, the lawful currency of Taiwan
''US$''	United States dollars, the lawful currency of the United States
''%''	per cent.

Unless otherwise specified in this prospectus, Hong Kong dollar amounts have been converted, for the purpose of illustration only, using the following rate:

US$1 = HK$7.80

No representation is made that any amounts in US$ or HK$ could have been or could be converted at the above rate or at any other rates or at all.

The glossary contains explanations of certain terms and definitions used in this prospectus in connection with the Group and its business. The terms and their meanings may not correspond to standard industry meaning or usage of these terms.

"administration agreement"	an agency agreement by which the artiste appoints the Group as the exclusive administrator for all of the artiste's compositions for a specified period of time
"CD"	compact disc
"concert agreement"	an agreement by which the artiste is required to perform solo performance shows to be organised and produced by the Group and/or its nominee(s) within a specified period of time
"copyright"	the entire copyright subsisting under the laws of Hong Kong and all analogous rights subsisting under the laws of each and every jurisdiction throughout the world
"domain name"	the address of a website which is registered with an approved domain name registrar
"domestic repertoire"	music album by local artiste
"double platinum award"	an award granted to a music catalogue which has achieved sales of 100,000 units or more in Hong Kong for domestic repertoire
"download"	the copying of files from one computer to another via a network or using a modem
"DVD"	digital video disc
"EP"	extended play record comprising at least four and not more than six musical works
"international repertoire"	music album of overseas artiste
"Internet"	a global network of interconnected and separately administered public and private computer networks
"LD"	laser disc
"MP3"	Moving Pictures Experts Group Audio Layer 3, a standard for storing and compressing audio data in digital format

"management agreement"	an agreement entered into by a member of the Group with an artiste under which the artiste appoints such member of the Group as his/her sole and exclusive agent worldwide to carry out all functions of personal representation on behalf of such artiste in all areas of the entertainment industry, including theatre, films, television, radio broadcasting, live performances, recording, and all forms of commercial, merchandising and advertising
"music catalogue"	a collection of songs in a single music album
"music label"	the specific brand name which is adopted for the release of a music album
"music title"	the title of individual songs within a music album
"online"	being connected to the Internet
"platinum award"	an award granted to a music catalogue which has achieved sales of 50,000 units or more in Hong Kong but not exceeding 100,000 units for domestic repertoire
"recording contract"	an agreement entered into by a member of the Group with an artiste under which the artiste accepts the exclusive appointment as a contract singer of such member of the Group and agrees to perform musical works and album recording services in all forms of media including compact discs, cassette tapes, video, laser discs, video cassette tapes, computer discs interactive, laser karaoke discs, CD ROM and any other media which may be invented in the future
"trademark"	a name, logo or symbol which is representative of a company's goods or services
"VCD"	video compact disc
"website"	a collection of web pages which are linked together by a website operator
"writer agreement"	an agreement by which the Group appoints the writer as the contract writer of the Group to write musical compositions exclusively for the Group

Prospective investors in the Offer Shares should consider carefully all the information set out in this prospectus and, in particular, should evaluate the following risks in connection with any investment in the Company, certain of which may not be typically associated with investing in equity securities of companies in Hong Kong or other economically advanced jurisdictions.

RISKS RELATING TO THE GROUP

The Group's expenses in contracting an established artiste are substantial

One of the business strategies of the Group is to enhance its artiste base by recruiting new artistes and contracting established artistes in the market. Unlike recruiting new artistes which requires minimal up front cost, the Group generally pays a substantial advance to contract an established artiste. If the Group is unable to obtain financing or generate cashflow internally, the amount to be spent on contracting established artistes may have to be reduced. This may adversely affect the ability of the Group to secure established artistes and the operation of the Group in the long run.

The Group's revenue is mainly derived from a few artistes

The Group's revenue is mainly derived from a few artistes. For the year ended 31st March, 2000, over 72% of the Group's revenue from music production and distribution and artiste management was derived from the Group's top six selling artistes, out of the total 22 artistes of the Group. Although the Group has put efforts in promoting and identifying new talents to diversify its source of revenue, there is no assurance that the Group can successfully promote its new artistes and neither can the existing established artistes maintain their popularity. If either situation persists for an extended period of time, the Group's income will be adversely affected.

The Group depends on its artistes complying with their contractual obligations to the Group

The Group is dependant on revenues generated by its performing artistes. To underpin arrangements with performing artistes, the Group has entered into a number of long term management agreements under which such artistes agreed to provide their services to the Group for fixed periods, ranging from four to 10 years. The ability of the Group to carry on its business as presently conducted or to be conducted in the future as currently proposed is dependent upon the Group's artistes complying in all material respects with their contractual obligations under these management agreements. Accordingly, in the event of a dispute arising out of the terms of such agreements, the Group will be reliant on its ability to enforce the relevant underlying agreements. Certain terms of such contracts may, should they be challenged in court, be ruled by the court as unenforceable and there can be no assurance that the courts will uphold the terms of any agreement in favour of the Group or that the Group will be able to enforce the agreements in the event of a breach by the artistes.

The Group depends on its key executives and personnel

The music entertainment business is a people-oriented business with a strong emphasis attached to the capability and efforts of the management team. The Group's performance depends, to a significant extent, on the continued service of its key executive personnel as set out in the section headed "Directors, management and staff" in this prospectus who provide creativity, inspiration and expertise to the Group. Further, the personal bond established between an artiste and the executive personnel is also a key factor in the success of such artiste. Likewise, the success of the artistes depends largely on the management skills and business connections of their managers. If the Group is unable to attract, retain and motivate the necessary executive personnel, the Group's operations and expansion plans may be jeopardised and its operating efficiency may deteriorate.

The Group faces intense competition and may be subject to competition from companies with greater resources

The Group's business is highly competitive. There are few substantial barriers to enter into the business of music production and distribution, artiste management and event production. One example for the low entry barrier level is that there are no licence or qualification requirements. The Group's business is therefore subject to potential competition with new participants in the industry while the Group also expects to face continuing competition from its existing competitors in the future. Many of the competitors have substantially greater financial and marketing resources, longer operating histories, greater name recognition and more established relationships in the industry than the Group. In particular, foreign companies may have better access to western music, which enables them to adapt the new musical trend ahead of other competitors. To maintain the competitiveness of the Group among both local and worldwide music entertainment companies, the Group needs to adapt to the rapid development of new musical trends and musical talent. There is no assurance that the Group will be able to compete successfully with other participants in the industry.

The Group's artistes in Hong Kong may not become popular in Taiwan and Mainland China

The Group intends to promote its artistes in Taiwan and Mainland China. The image or style of the Group's artistes in Hong Kong may not be acceptable to the local public in Taiwan and Mainland China as the music and entertainment culture in Taiwan, Mainland China and Hong Kong differs. The Group has to face severe competition from the local artistes and the established local music record companies in these regions.

The Group may not be able to successfully implement its strategy for future growth

A significant portion of the value of the Offer Shares in the future will depend on the Group's success in implementing its long-term strategy as set out in the paragraph headed "Strategies" under the section headed "Statement of business objectives" in this prospectus. The success of such strategy depends upon a number of factors both within and outside the Group's control.

The Group's strategy of expansion in Mainland China will expose the Group to further risks

The Group intends to expand its business in Mainland China through joint ventures or other arrangements. The Group may be required to cooperate with local business partners in obtaining licences to operate in Mainland China. At present, there is no licensing requirement for music production and distribution, artiste management, and event production in the PRC. However, the PRC government may adopt regulations on the above kinds of business should there be any change to the political or social environment. Accordingly, the business of the Group in the PRC may be affected. Searching for a suitable partner in the PRC is a very important step for the Group to enter into the PRC market. If the Group or its partners are unable to obtain such licences, this may have adverse effects in the planned expansion of the Group in the Mainland China market. In addition, the Group's expansion plan in Mainland China will expose the Group to a number of risks including unexpected changes in legal regulatory requirements, potentially adverse tax and regulatory consequences, export and import restrictions, currency exchange restrictions, tariffs and other trade barriers and political instability and fluctuations in currency exchange rates.

RISKS RELATING TO THE INDUSTRY

The music entertainment industry is highly volatile

The Group relies on the popularity and success of its artistes and on the efforts of its music production and distribution and artiste management teams for the promotion and development of the Group's music production and distribution and artiste management businesses. In order to promote record sales and maintain the profitability of the Group's business, the Group may incur substantial costs in music production, advertising and promotion for new album releases. The Group may also incur substantial costs to recruit established artistes for music production. The investment costs in organising events, shows and concerts by the Group is also substantial. However, the market trend of the music entertainment industry and the popularity of artistes fluctuates and is not readily predictable and there is no assurance that revenue generated from these activities which incur substantial costs will be proportional to the investment costs. There is also no assurance that the Group will be able to predict market trends and select songs and artistes which appeal to consumers of music and event productions. Neither can there be any assurance that the Group will be able to identify and recruit new artistes in the future or that the popularity of its existing artistes can be sustained for the Group to maintain its profitability.

A decrease in the popularity of the Group's artistes or the portrayal of a bad image to the public by the artistes may prevent advertisers or other producers from retaining the services of such artistes due to the diminished commercial value of such artistes. If such a situation persists for any length of time, the Group's income deriving from its artiste management business will be adversely affected.

In addition, a major portion of the Group's music production revenue is generated from domestic repertoire in Hong Kong. If the size of the market or the market share of domestic repertoire vs. international repertoire in Hong Kong cannot be sustained, the Group's revenue from music production and distribution will be adversely affected.

The music entertainment industry is sensitive to economic and financial fluctuations

The Group's operating results may fluctuate due to the vulnerability of the music entertainment market because of fluctuations in the underlying economic position in its markets. The number of record sales, the number of people attending shows and concerts and advertising volume may fluctuate in line with consumer spending pattern. Entertainment is not a daily necessity and therefore people will spend less money on entertainment if they do not have a surplus. If the economic market falls, this may have a knock-on effect on the performance of the entertainment market.

The Group's business may be adversely affected by pirated discs and downloading of illegal MP3

The Asian record industry has been adversely affected by the rapid development of piracy of music copyrights. Although Hong Kong has undergone substantial legal reforms to combat piracy, record sales are still adversely affected by pirated discs and the illegal downloading of songs in MP3 format available on the Internet. A sustained programme of anti-piracy campaign and targeted enforcement is needed to curb illegal sales in Hong Kong, Taiwan and the PRC. If the sale of pirated CDs and the downloading of illegal MP3 songs from Internet persists, the income of the Group will be adversely affected.

RISKS RELATING TO THE SHARES

An active trading market for the Shares may not develop and their market price may be subject to volatility

An active trading market for the Shares may not develop and the trading price for Shares may fluctuate significantly. Prior to the Share Offer, there has been no public market for any of the Shares. The Issue Price may not be indicative of the price at which Shares will trade following the completion of the Share Offer. In addition, there can be no guarantee that an active trading market for Shares will develop, or, if it does develop, that it will be sustained following the completion of the Share Offer, or that the market price of the Shares will not fall below the Issue Price.

The trading price of the Shares can also be subject to significant volatility in response to, among other factors, the following factors:

- investors' perceptions of the Group;
- changes to senior management;
- the depth and liquidity of the market for the Shares and the development of GEM as a stock market; and
- general economic and other factors.

Anyone who purchases the Offer Shares will experience immediate and substantial dilution in the net tangible asset value of the Shares

The Issue Price is substantially higher than the adjusted net tangible asset value per Share of 41 cents immediately after completion of the Share Offer. Subscribers of the Offer Shares will incur immediate and substantial dilution of up to 67 cents per Share in the net tangible asset value per Share from the Issue Price of not more than HK$1.08 per Share.

The shareholders' interests in the Company may be diluted in the future

The Group may need to raise additional funds in the future to finance expansion of or new developments relating to its existing operations or new acquisitions. If additional funds are raised through the issue of new equity or equity-linked securities of the Company other than on a pro rata basis to the then existing shareholders, the percentage ownership of the shareholders of the Company may be reduced and shareholders may experience subsequent dilution. In addition, such securities may have rights, preferences and privileges senior to those of the Shares.

Pursuant to Rule 17.29 of the GEM Listing Rules, no further Shares or securities convertible into equity securities of the Company may be issued or form the subject of any agreement to issue within the first six months from the Listing Date.

ISSUES TO CONSIDER IN RELATION TO STATEMENTS MADE IN THIS PROSPECTUS

Certain statistics are derived from publications which have not been independently verified by the Group, the Underwriters or their respective advisers

Certain statistics in this prospectus relating to the music entertainment industry are derived from report issued by IFPI. Such information has not been independently verified by the Group, the Underwriters or their respective advisers and may not be accurate, complete or up-to-date. The Group makes no representation as to the correctness or accuracy of such information.

Forward-looking statements contained in this prospectus may not be accurate

Included in this prospectus are various forward-looking statements which can be identified by the use of forward-looking terminology such as "may", "will", "expect", "anticipate", "estimate", "continue", "believe" and other similar words. The Company and the Directors have made forward-looking statements with respect to, among other things, the following:

- the Group's objectives and strategies to achieve such objectives; and
- the importance and expected growth of music entertainment industry.

Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. These forward-looking statements speak only as at the Latest Practicable Date.

GEM LISTING RULES WAIVERS

For the purpose of the listing of the Shares on GEM, the Company has sought a number of waivers from the Stock Exchange in relation to certain requirements under the GEM Listing Rules. Details of such waivers are described below.

Lock-up waiver

Under Rule 13.16 of the GEM Listing Rules, a new applicant shall procure, inter alia, that every Initial Management Shareholder undertakes to the new issuer and the Stock Exchange not, for a period of two years from the listing date, save as provided in Rule 13.17 of the GEM Listing Rules, to dispose of (or enter into any agreement to dispose of) or permit the registered holder to dispose of (or to enter into any agreement to dispose of) any direct or indirect interest in the relevant securities.

Moratorium period

Under the GEM Listing Rules, Questrel, Mr. Yeung, Ms. Luk Siu Man, Semon and Mr. Lee are considered to be the Initial Management Shareholders and would ordinarily be subject to a moratorium period of two years. **As a result of an application made by the Sponsor on behalf of the Company, the Stock Exchange has granted a waiver to the effect that the moratorium period applicable to the Initial Management Shareholders has been reduced to six months in respect of their respective Shares, in aggregate, representing approximately 60% of the issued share capital of the Company as enlarged by the Share Offer. Thereafter, Questrel, Mr. Yeung and Ms. Luk Siu Man, Semon shall be subject to a further six-month moratorium period only to the extent of their aggregate shareholdings representing not less than 35% of the enlarged issued share capital of the Company from time to time.**

Placing and top-up transactions

In order to facilitate the Group in raising funds by way of placing and top-up transactions after six months of listing, the Sponsor, on behalf of the Company, has applied for a waiver from strict compliance with Rule 13.16(2) of the GEM Listing Rules to allow Questrel, Mr. Yeung and Ms. Luk Siu Man, Semon to first dispose of any of their Shares subject to the moratorium period prior to the subsequent top-up by way of a subscription for new Shares. Questrel, Mr. Yeung and Ms. Luk Siu Man, Semon have undertaken that they will apply the whole of the sale proceeds received from such a placing to subscribe for new Shares in order to maintain Questrel's, Mr. Yeung's and Ms. Luk Siu Man, Semon's interest in the same number of Shares they had held in the Company prior to such placing and such newly subscribed Shares will also be subject to the lock-up provision of Rule 13.16(2) of the GEM Listing Rules unless they are subsequently disposed of pursuant to another placing and top-up transaction subject to the similar conditions.

Stock borrowing

In order to facilitate settlement of over-allocations in connection with the Placing, BNP Paribas Peregrine Securities may borrow Shares from Questrel under a stock borrowing arrangement pending exercise of the Over-allotment Option and/or acquisition of Shares in the secondary market. As the Shares held by Questrel are subject to the moratorium period as described above, an application has been made by the Sponsor, on behalf of the Company, to the Stock Exchange for a waiver from strict compliance with Rule 13.16 of the GEM Listing Rules (as explained above) for the purpose of implementing the stock borrowing arrangement. A waiver has been granted by the Stock Exchange on condition that:

(i) the stock borrowing arrangement with Questrel may only be effected by BNP Paribas Peregrine Securities for settlement of over-allocations in connection with the Placing;

(ii) the maximum number of Shares to be borrowed from Questrel must not exceed the maximum number of Shares which may be issued upon exercise in full of the Over-allotment Option;

(iii) the same number of Shares borrowed shall be returned to Questrel not later than three business days following the earlier of: (a) the last day on which the Over-allotment Option may be exercised; or (b) the day on which the Over-allotment Option is exercised in full; and

(iv) the returned Shares will be placed in escrow as soon as practicable with an escrow agent acceptable to the Stock Exchange.

This stock borrowing arrangement will be effected in compliance with all applicable laws and regulatory requirements. No benefits nor payments will be made to Questrel in relation to such stock borrowing arrangement.

Connected transactions waiver

Members of the Group are parties to certain transactions that will, upon the listing of the Company on GEM, constitute continuing connected transactions on the part of the Company for the purpose of the GEM Listing Rules. These transactions (details of which are set out in the paragraph headed ''Connected transactions'' under the section headed ''Business'' in this prospectus) include:

1. (i) the leasing of portions of 27th Floor of Emperor Group Centre to the Group by Strong Time with an annual cap set at HK$2.0 million;

   (ii) the leasing of Unit 2001 of Emperor Group Centre, one parking space in Emperor Group Centre and two parking spaces in Kwong Sang Hong Building to the Group by Linkpac, Very Sound and Active Pace respectively with an annual cap set at HK$0.75 million;

2. the provision of advertising and promotion services by Emperor Advertising to the Group with an annual cap set at HK$1.8 million;

3. the provision of back office support services (including internal auditing, accounting, human resources and administrative services) by Emperor Management to the Group with an annual cap set at HK$1.2 million;

4. the provision of professional services (including information technology, legal and secretarial services) by Emperor Management to the Group with an annual cap set at HK$1.3 million;

5. the provision of website designing, building and hosting services by eDaily to the Group with an annual cap set at HK$2.7 million; and

6. the aggregate investment in eFoodland and eStardream with an annual cap set at HK$1.5 million.

In the opinion of the Directors (including the independent non-executive Directors) and BNP Paribas Peregrine, the above transactions are entered into under normal commercial terms and in the ordinary and usual course of business, and are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The above connected transactions constitute the Non-exempt Continuing Connected Transactions and are therefore subject to the reporting requirement set out in Rule 20.34, the announcement requirement set out in Rule 20.35 and the shareholders' approval requirement set out in Rule 20.36 of the GEM Listing Rules. It is considered that strict compliance with the requirements for the Non-exempt Continuing Connected Transactions would be impractical. As such, the Sponsor, on behalf of the Company, has applied to the Stock Exchange for a waiver from the requirements for the Non-exempt Continuing Connected Transactions for the period up to 31st March, 2003. The Stock Exchange has indicated that it will grant waivers from compliance with the requirements under the GEM Listing Rules in respect of the Non-Exempt Continuing Connected Transactions on the following conditions:

(a) the Non-Exempt Continuing Connected Transactions are entered into, and the terms of the respective agreements governing such transactions are:

    (i) in the ordinary and usual course of business of the Group;

    (ii) on normal commercial terms or on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and

    (iii) in accordance with the terms of the agreements governing such transactions or on terms that are no less favourable than terms available to (or from) independent third parties;

(b) details of the Non-Exempt Continuing Connected Transactions shall be disclosed in the Company's next and each successive annual report in accordance with Rule 20.34 of the GEM Listing Rules;

(c) the independent non-executive Directors shall review annually the Non-Exempt Continuing Connected Transactions and confirm in the Company's annual report and accounts that such transactions are conducted in accordance with Rule 20.27 of the GEM Listing Rules;

(d) the Company shall engage its auditors to provide the Board with a letter in respect of each relevant financial year during which the Non-Exempt Continuing Connected Transactions are conducted, stating that such transactions:

(i) have received the approval of the Board;

(ii) are in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group;

(iii) have been entered into in accordance with the terms of the relevant agreements governing such transactions; and

(iv) have not exceeded the caps agreed with the Stock Exchange in respect of the Non-Exempt Continuing Connected Transactions;

(e) the Company shall promptly notify the Stock Exchange if it knows or has reason to believe that the independent non-executive Directors and/or the auditors will not be able to confirm the matters set out in Rules 20.27 and/or 20.28 of the GEM Listing Rules respectively and the Company may have to re-comply with Rules 20.26(3) and (4) of the GEM Listing Rules and any other conditions the Stock Exchange considers appropriate; and

(f) the Company and each of the counterparties shall undertake to provide the Company's auditors with full access to its relevant records for the purpose of the auditors' review of the Non-Exempt Continuing Connected Transactions.

In the event that any of the caps are exceeded or if the Group enters into any new transactions or agreements with any connected persons (within the meaning of the GEM Listing Rules) in the future, the Company will comply with the provisions of Chapter 20 of the GEM Listing Rules dealing with connected transactions unless it applies for, and obtains, a separate waiver from the Stock Exchange. In addition, if any of the Non-Exempt Continuing Connected Transactions shall continue after the expiry of the current waiver on 31st March, 2003, the Group will comply with the provisions of Chapter 20 of the GEM Listing Rules in relation to such Non-Exempt Continuing Connected Transactions, unless the Group obtains another waiver from the Stock Exchange in relation thereto.

Share Option Schemes waiver

The Share Option Schemes were adopted by resolutions in writing passed by the sole shareholder of the Company on 30th November, 2000. Rule 23.03(2) of the GEM Listing Rules requires that the total number of Shares subject to the Share Option Schemes and any other schemes must not, in aggregate, exceed 10% of the issued share capital of the Company from time to time. The Company has applied for a waiver from strict compliance with Rule 23.03(2) of the GEM Listing Rules so that the limit at which the total number of Shares subject to any share schemes of the Company can be increased to 30% of the issued share capital of the Company from time to time. Such waiver has been granted by the Stock Exchange subject to the following conditions:

(1) The total number of Shares which may be acquired pursuant to the exercise of options under the Share Option Schemes and any other schemes, must not, in aggregate, exceed 30% of the issued share capital of the Company from time to time.

(2) Subject to (1) above, shareholders of the Company may authorise the Directors to grant options under the Share Option Schemes and any other schemes entitling participants to acquire Shares pursuant to the exercise of options representing up to the Option Scheme General Mandate Limit, which may be renewed if approved by shareholders in general meetings from time to time.

(3) Subject to (1) above, the Company may seek a separate shareholders' approval in general meeting to grant options beyond the Option Scheme General Mandate Limit to participants specified by the Company before such approval is sought.

(4) If options are granted to a Connected Person, the granting of such option will be subject to all independent non-executive Directors' approval and where options are proposed to be granted to a Connected Person who is also a substantial shareholder (as such term is defined in the GEM Listing Rules) or any of its Associates, and the proposed grant of options, when aggregated with the options already granted to that connected person in the past 12 months' period, would entitle him to receive more than 0.1% of the total number of issued Shares for the time being and the value of which is in excess of HK$5,000,000, the granting of such option will be subject to independent shareholders' approval.

(5) Additional disclosures will be made in the annual and interim reports of the Company regarding:

    (i) details of options granted to each Director and all the other participants; and

    (ii) a summary of the major terms of each share option scheme approved by the shareholders of the Company.

As at the Latest Practicable Date, the number of Shares to be issued upon full exercise of the options granted (and remaining exercisable) under the Pre-IPO Share Option Scheme represents approximately 3.86% of the issued share capital of the Company immediately after completion of the Share Offer (excluding Shares to be issued under the Over-allotment Option or pursuant to the exercise of any options granted (and remaining exercisable) under the Pre-IPO Share Option Scheme), details of which are set out in appendix V to this prospectus. Pursuant to the sole shareholder's resolution passed on 30th November, 2000, the Company may issue options under the Share Option Schemes within the Option Scheme General Mandate Limit. Any further grant of options would be dependent on shareholders of the Company approving either a renewal of the Option Scheme General Mandate Limit or a grant of options to specified participants.

COMPANIES ORDINANCE

For the purpose of the listing of the Shares on GEM, the Company has sought a waiver from the Securities and Futures Commission in relation to certain requirements under the Companies Ordinance. Details of the waiver is described below.

Under paragraph 27 of the Third Schedule to the Companies Ordinance, the Company is required to set out in its listing document a statement as to its gross trading income or sales turnover for each of the three preceding financial years. Paragraph 31 of the Third Schedule to the Companies Ordinance requires the Group to set out a report prepared by its auditors and reporting accountants, containing its financial information in respect of each of the three financial years immediately preceding the issue of the listing document. The Securities and Futures Commission has granted to the Company an exemption from strict compliance with Section 342(1) of the Companies Ordinance, on the ground that compliance with paragraph 27 and 31 of the Third Schedule to the Companies Ordinance would be unduly burdensome for the Company, such that the Company is only required to include in this prospectus its trading record, financial results and information for each of the two years ended 31st March, 2000 and the three months ended 30th June, 2000.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance and the GEM Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

(1) the information contained in this prospectus 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 prospectus misleading; and

(3) all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

CONSENT OF THE BERMUDA MONETARY AUTHORITY

Pursuant to the Exchange Control Act 1972 of Bermuda as amended and regulations made thereunder, the Bermuda Monetary Authority has given its permission for the issue of the Shares pursuant to the Pre-IPO Issue, the Share Offer and the Capitalisation Issue on the terms of this prospectus and the application forms relating hereto and the issue of Shares pursuant to the exercise of options granted under the Share Option Schemes. In granting such permission and in accepting this prospectus for filing, neither the Bermuda Monetary Authority nor the Registrar of Companies in Bermuda accepts any responsibility for the financial soundness of the Group or for the correctness of any of the statements made or opinions expressed in this prospectus or in the related application forms.

UNDERWRITING

This prospectus is published in connection with the Share Offer which is sponsored by BNP Paribas Peregrine Capital and fully underwritten by the Underwriters pursuant to the Underwriting Agreement. For further information relating to the underwriting arrangement, please see the section headed "Underwriting" in this prospectus.

RESTRICTIONS ON SALE OF SHARES

No action has been taken in any jurisdiction other than Hong Kong and Bermuda to permit an offering of the Offer Shares or the distribution of this prospectus to the public in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in certain jurisdictions may be restricted by law.

The Offer Shares are offered solely on the basis of the information contained and the representations made in this prospectus. No person is authorised in connection with the Share Offer to give any information or to make any representation not contained in this prospectus and the related application forms. Any information or representation not contained in this prospectus and the related application forms must not be relied upon as having been authorised by the Group, the Sponsor, the Underwriters, any of their respective directors or any other person involved in the Share Offer.

APPLICATION FOR LISTING ON GEM

The Company has applied to the GEM Listing Committee for the listing of, and permission to deal in the Shares in issue, the Shares to be issued pursuant to the Share Offer and the Capitalisation Issue and any Shares which may be issued pursuant to the Pre-IPO Issue, the exercise of the Over-allotment Option, and Shares which may fall to be issued upon exercise of options granted under the Share Option Schemes. No part of the share or loan capital of the Company is listed or dealt in on any other stock exchange and at present no such listing or permission to deal is being proposed to be sought.

Pursuant to Rule 11.23(1) of the GEM Listing Rules, at the time of listing and at all times thereafter, the Group must maintain the "minimum prescribed percentage" of 20% of the issued share capital of the Company in the hands of the public.

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of subscribing for, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to the Offer Shares, you should consult an expert.

The Group, the Directors, the Sponsor, the Underwriters, any of their respective directors and any other person involved in the Share Offer do not accept responsibility for any tax effects on, or liabilities resulting from subscribing for, or purchase, holding or disposal of, or dealing in or the exercise of any rights in relation to, the Offer Shares.

STAMP DUTY

Dealings in the Shares registered on the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty.

PROCEDURES FOR APPLICATION FOR PUBLIC OFFER SHARES

The procedures for applying for the Public Offer Shares are set out in the section headed "How to apply for the Public Offer Shares" in this prospectus and on the relevant application forms.

STRUCTURE OF THE SHARE OFFER

Details of the structure of the Share Offer, including its conditions, are set out in the section headed "Structure and conditions of the Share Offer" in this prospectus.

DIRECTORS

Name	Address	Nationality
Directors		
Luk Siu Man, Semon *(Chairperson)**	No. 2 Belleview Drive Repulse Bay Hong Kong	British
Lee Tsun, Frankie *(Chief Executive Officer)*	10C, Monticello 48 Kennedy Road Hong Kong	British (BNO)
Wong Chi Fai	Flat B, 19th Floor, Tower II Clovelly Court 12 May Road Hong Kong	British
Fan Man Seung, Vanessa	Ground Floor, Block A2 12 Boyce Road Jardine's Lookout Hong Kong	Chinese
Cheng Yiu Keung	Flat A, 4th Floor, Block 3 Handsome Court Tuen Mun New Territories	British (BNO)
Chan Kong Sang, Jackie *	Flat A, 1st Floor, Block B Mountain Court 5 Homantin Hill Road Kowloon	British (BNO)
Wong Ching Yue **	No. 2 Braga Circuit Kadoorie Hill Kowloon	British
Tso Hon Sai, Bosco **	Flat E, 6th Floor, Tower 3 Parc Oasis, Yau Yat Chuen Kowloon	Chinese

* *Non-executive Directors*

** *Independent non-executive Directors*

PARTIES INVOLVED IN THE SHARE OFFER

Sponsor	BNP Paribas Peregrine Capital Limited 36th Floor Asia Pacific Finance Tower 3 Garden Road Central Hong Kong
Bookrunner	BNP Paribas Peregrine Securities Limited 35th & 36th Floors Asia Pacific Finance Tower 3 Garden Road Central Hong Kong
Joint lead managers	BNP Paribas Peregrine Securities Limited 35th & 36th Floors Asia Pacific Finance Tower 3 Garden Road Central Hong Kong Emperor Securities Limited 23rd & 24th Floors Emperor Group Centre 288 Hennessy Road Wanchai Hong Kong
Public Offer Underwriters and Placing Underwriters	BNP Paribas Peregrine Securities Limited 35th & 36th Floors Asia Pacific Finance Tower 3 Garden Road Central Hong Kong Emperor Securities Limited 23rd & 24th Floors Emperor Group Centre 288 Hennessy Road Wanchai Hong Kong

CEF Capital Limited
Suite 2001, 20th Floor
Cheung Kong Center
2 Queen's Road Central
Central
Hong Kong

Celestial Capital Limited
22nd Floor
The Center
99 Queen's Road Central
Hong Kong

Shenyin Wanguo Capital (H.K.) Limited
28th Floor
Citibank Tower
Citibank Plaza
3 Garden Road
Hong Kong

South China Securities Limited
28th Floor
Bank of China Tower
No. 1 Garden Road
Central
Hong Kong

Tai Fook Securities Company Limited
25th Floor
New World Tower
16-18 Queen's Road Central
Hong Kong

Financial adviser to the Group

Emperor Capital Limited
28th Floor
Emperor Group Centre
288 Hennessy Road
Wanchai
Hong Kong

Legal advisers to the Group

As to Hong Kong Law:
Fairbairn Catley Low & Kong
43rd Floor
Gloucester Tower
The Landmark
11 Pedder Street
Hong Kong

	As to Bermuda Law: Conyers Dill & Pearman 2901, One Exchange Square 8 Connaught Place Central Hong Kong
Legal advisers to the Sponsor and the Underwriters	Richards Butler 20th Floor Alexandra House 16-20 Chater Road Hong Kong
Auditors and Reporting accountants	Deloitte Touche Tohmatsu *Certified Public Accountants* 26th Floor Wing On Centre 111 Connaught Road Central Hong Kong
Property valuer	Chesterton Petty Limited 16th Floor CITIC Tower 1 Tim Mei Avenue Central Hong Kong
Receiving banker	Bank of China Hong Kong Branch 1 Garden Road Hong Kong

CORPORATE INFORMATION

Registered office	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Head office and principal place of business	28th Floor Emperor Group Centre 288 Hennessy Road Wanchai Hong Kong
Website	www.eegmusic.com
Company secretaries	Mok Fung Lin, Ivy, *LLB* Ira Stuart Outerbridge III *
Authorised representatives	Fan Man Seung, Vanessa Mok Fung Lin, Ivy
Compliance officer	Wong Chi Fai, *FCCA, AHKSA*
Qualified accountant	Lau Wei Fan, *CPA (Aust), AHKSA*
Audit Committee	Wong Ching Yue Tso Hon Sai, Bosco
Principal share registrar and transfer office in Bermuda	Butterfield Corporate Services Limited Rosebank Centre 11 Bermudiana Road Pembroke Bermuda
Hong Kong branch share registrar and transfer office	Secretaries Limited 5th Floor Wing On Centre 111 Connaught Road Central Hong Kong
Principal banker	The Hongkong and Shanghai Banking Corporation Limited 673 Nathan Road Kowloon Hong Kong

** Mr. Outerbridge will resign immediately after the listing of the Shares on the Stock Exchange.*

The information provided in this section is derived from various private and/or government publications or other unofficial sources of information. This information has not been independently verified by the Company, the Sponsor, the Underwriters or their respective advisers.

OVERVIEW OF MUSIC ENTERTAINMENT

The music entertainment industry is a talent-driven and creative industry and a people-oriented business. According to IFPI, the global music market was worth approximately US$38.5 billion in 1999, up by approximately 1% in constant dollar terms, with total unit sales of approximately 3.8 billion units. Globally, unit growth remained constant with CD sales up by approximately 3%. There was notable growth in North America and South East Asia and a slight rise in sales in Europe in 1999. Asia's music market was worth approximately US$8 billion in 1999, representing over approximately 20% of total sales in the world.

Due to the high quality of sound replay and convenience, CDs grew in popularity during the 1990's and have replaced cassette tapes in the music industry. IFPI stated that CD sales worldwide continued their steady growth in 1999, increasing by the annual rate of approximately 3%. In 1999, CDs accounted for approximately 65% of all units sold (whereas music cassettes, singles, long playing records and mini discs accounted mostly for the balance), compared to less than 63% in 1998. The most significant countries to contribute to this increase are the US and Australia. Cassette sales fell sharply in every region except Asia. For Asian countries such as Mainland China, South Korea and Malaysia, cassette sales represented approximately 66%, 39% and 40% of their total music sales respectively in 1999. While for Japan, Hong Kong, Singapore and Taiwan, CDs have contributed to over 85% of their respective total music sales in 1999.

Hong Kong

The music and media entertainment market flourished in Hong Kong in the early 1990's. The sales of records in Hong Kong was approximately US$98.9 million (approximately HK$771 million) in 1999. However, the sales peaked in 1996 with sales of over HK$1.5 billion when the market underwent rapid expansion due to the popularity of karaoke in Hong Kong and the gradual replacement of long playing records with CDs in the 1990's.

The record industry in Hong Kong can be divided into domestic repertoire and international repertoire. During the period from 1991 to 1995, the karaoke business expanded rapidly. Domestic repertoire had dominated over 55% of the market sales and peaked with approximately 67% of market sales in 1994. From 1995 onwards, the karaoke business stabilised and the domestic repertoire was subject to serious piracy problems with piracy levels reaching 50% per unit sales of CDs in 1998. At the same time, the international repertoire's market share in the music industry increased gradually. The music market share between domestic and international repertoire in Hong Kong has gradually changed from approximately 67%:33% in 1994, to approximately 45%:55% in 1999.

There are approximately 40 active local singing artistes in Hong Kong under 14 record companies. Among the 14 record companies, around eight of them are international companies.

According to IFPI, CD sales accounted for almost 98% of record sales in Hong Kong in 1999. The record industry in Hong Kong is finally showing signs of recovery after being besieged by piracy, particularly virulent in the past couple of years. The piracy level has dropped from over 50% per unit sales of CDs in 1998 to below 50% per unit sales of CDs in 1999 and the drop of sales of CDs slowed down for the first time in over two years. The sales of CDs in Hong Kong dropped by approximately 6% in 1999 as compared to 1998.

IFPI, a major worldwide organisation, has set up its regional office in Hong Kong for implementing IFPI's strategies at regional level in Asia, co-ordinating the works of national groups and setting the priority task of lobbying tailored to the political environment in the region. There are also local organisations such as CASH in Hong Kong, which is responsible for collecting royalties for song composers and lyrics writers.

Taiwan

Taiwan is the largest music market within the Greater China region. In 1999, sales of albums in Taiwan amounted to approximately US$306 million and ranked 16 in the world. Domestic repertoire in Taiwan remained strong (when compared with international repertoire) with sales maintained at above 65% of total sales of music albums for the period from 1996 to 1999. There are approximately 20 record production companies in Taiwan, out of which five have an international background. The economy in Taiwan was affected by the Asian economic turmoil in 1997 and the sluggish growth of consumer demand in the region. Music sales in Taiwan dropped by approximately 25%, from approximately US$427 million in 1997 to approximately US$319 million in 1998, but the drop slowed down to approximately 4% in 1999.

The PRC

The market share between domestic and international repertoire in the PRC record industry had shifted from approximately 51%:49% in 1995 to approximately 45%:55% in 1999. The PRC market is subject to piracy problems with over 50% piracy for each unit sale of CDs in 1999. There are approximately 40 record companies in the PRC, four of which have an international background. The economy in the PRC was also affected by the Asian economic turmoil in 1997 and the sluggish growth of consumer demand in the region. Music sales dropped by approximately 19%, from approximately US$127 million in 1997 to approximately US$103 million in 1998, but the drop slowed down to approximately 9% with sales of approximately US$94 million in 1999.

Other Asian markets

For other Asian markets, Japan's music market contributed to most of the music sales in Asia. In 1999, Japan's music market in terms of sales was worth approximately US$6.4 billion, representing approximately 83% of the Asian market and is the second largest music market in the world, after the US. In Japan, domestic repertoire has dominated the market with over 70% of the total sales of music albums throughout the last decade. In 1999, Japan's domestic repertoire represents approximately 77% of the music market in Japan. South Korea's market was worth approximately US$233 million with domestic repertoire representing approximately 44% of the music market in South Korea in 1999. Malaysia is a relatively small market and its market was worth approximately US$53 million in terms of sales and is dominated by international repertoire which accounted for approximately 83% of the market in 1999.

According to a report from IFPI, the reduction in consumer demand in Japan, the biggest market in the region, led to an 11% fall in sales units and 7% in sales value during 1999. Asia as a whole fell by 4% in sales units and 6% in sales value. Excluding Japan, the Asian region grew by 3% in sales units and 1% in sales value, mirroring the economic recovery of the region. Highest growth rates were experienced by South Korea and Indonesia, while other countries such as Mainland China and Singapore fell.

PROTECTION OF COPYRIGHT OF SONGS

The record industry is dependent on copyright protection. Copyright is the essential building block of music business, giving artistes, song composers, lyric writers and record companies incentive to creative production. It protects artistes from piracy of their works. IFPI and more than 47 different national organisations in different regions are set up to protect the copyright and promote the value of the thriving legitimate music industry.

REGULATIONS

In Hong Kong, copyright in various descriptions of work is protected by the Copyright Ordinance. The Copyright Ordinance contains provisions regarding the rights of performers and others in performances and provisions with respect to devices designed to circumvent copy-protection of works, with respect to rights management information and with respect to the fraudulent reception of transmission. According to the Copyright Ordinance, provided that certain qualification requirements are fulfilled, copyright is a property right which subsists in three categories of work, namely, (i) original literary, dramatic, musical or artistic works, (ii) sound recordings, films, broadcasts or cable programmes and (iii) the typographical arrangement of published editions. The Copyright Ordinance provides that copyright in a literary, dramatic, musical or artistic work expires at the end of the period of 50 years from the end of the calendar year in which the author dies whereas, for a sound recording, copyright expires at the end of the period of 50 years from the end of the calendar year in which it was made or, if released within that period, 50 years from the end of the calendar year in which it is released. Under the Copyright Ordinance, no person can copy the work, issue or make available copies of the work to the public, rent copies of the work to the public, perform, show or play the work in public, broadcast the work or include it in a cable programme service or make an adaptation of the work without the licence of the copyright owner.

IFPI AND CASH

IFPI

IFPI is the organisation representing the international recording industry. It comprises a membership of 1,400 record producers and distributors in 76 countries. It also has national groups in 46 countries. IFPI's International Secretariat is based in London, the United Kingdom and is linked to regional offices in Brussels, Hong Kong, Miami and Moscow. IFPI aims are (i) fighting music piracy; (ii) promoting fair market access and adequate copyright laws; (iii) helping develop the legal conditions and the technologies for the recording industry to prosper in the digital era; and (iv) promoting the value of music in the development of economies, as well as in social and cultural life.

CASH

CASH is aimed at administering and enforcing collectively the rights of composers and authors of musical works subsisting under the copyright law of Hong Kong. CASH licenses music users and collects royalties from them in return. The royalties can be classified as: (i) public performance royalties which refer to royalties from live shows, retail shops and karaokes etc.; and (ii) broadcasting royalties which refer to royalties from movies, television and radio stations.

INTRODUCTION

The Group's aim is to become a leading music entertainment and artiste management group engages principally in (i) music production and distribution; (ii) artiste management; and (iii) event production in the Greater China region with primary focus in Hong Kong. The following table outlines the existing principal business activities of the Group:

Business activities	Description
Music production and distribution	● Selection of artistes and songs, setting of marketing strategy, music style and budget, and preparing for the production; ● production and distribution of music catalogues of the Group's own artistes; ● distribution of music catalogues licensed from third parties; ● licensing of the Group's albums and catalogues licensed from third parties for overseas distribution; and ● licensing of the Group's songs and/or lyrics.
Artiste management	Providing training, manager and agency services to both new artistes and established artistes.
Event production	Organising and producing music concerts and shows.

Set out below is an analysis of the Group's turnover by business activities for each of the two years ended 31st March, 2000, and for the three months ended 30th June, 2000:

Type of business	Year ended 31st March, 1999		Year ended 31st March, 2000		Three months ended 30th June, 2000	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Music production and distribution	10,700	87.3	44,445	85.3	16,122	73.5
Artiste management	1,553	12.7	5,151	9.9	5,807	26.5
Event production	—	—	2,486	4.8	—	—
	12,253	100.0	52,082	100.0	21,929	100.0

COMPETITIVE STRENGTHS

Although competition within the music entertainment industry is intense, the Directors believe that the Group has the necessary attributes to become a leading music entertainment and artiste management group in the Greater China region with primary focus in Hong Kong. In particular, the Directors consider that the Group has the following strengths:

- having established itself in (i) music production and distribution business, which is evidenced by three platinum awards and one double platinum award having been granted for music albums released by it in Hong Kong since 1st April, 1998; (ii) artiste management business with its current team of contracted artistes; and (iii) event production business, which is evidenced by having organised 12 concerts since 1st April, 1998;

- having an established record in identifying and introducing new artistes to the market and promoting existing artistes;

- having created a strong foundation for future growth and expansion through the synergy of the Group's music production and distribution business, artiste management business and event production business;

- having a management team with extensive experience in the music entertainment and artiste management businesses, which has demonstrated a good knowledge of the local music market and is capable of capturing the latest music trend and fashion; and

- leveraged on its achievement in each of its businesses in Hong Kong, having built up a strong foundation for expanding into other Asian markets.

HISTORY AND DEVELOPMENT

The business of the Group originated from Fitto Entertainment, founded by Mr. Ip Chi Ming, Jimmy in 1986 to engage in the production and distribution of karaoke laser discs. During the early 1990's, karaoke grew in popularity, thereby providing business opportunities for the Group. In 1992, Fitto Entertainment expanded its business to include music production and distribution.

In 1994, Hapus Enterprises Limited (a wholly-owned subsidiary of Hong Kong Daily News Holdings Limited) acquired a 51% equity interests in Fitto Entertainment BVI (the then holding company of Fitto Entertainment) to engage in the music and karaoke production and distribution industry. Emperor International was then a substantial shareholder of Hong Kong Daily News Holdings Limited. Hong Kong Daily News Holdings Limited, a company listed on the Main Board, has subsequently been renamed as Graneagle Holdings Limited and is currently controlled by a third party who is independent of the Directors, the chief executive, the substantial shareholders of the Company, any of its subsidiaries or their respective Associates. In 1997, Hong Kong Daily News Holdings Limited increased its shareholding interests in Fitto Entertainment BVI to 96%.

During 1997, Fitto Entertainment entered into recording contracts and management agreements with a number of the then new artistes whom Fitto Entertainment believed to be of great potential. With a view to streamlining its business, Hong Kong Daily News Holdings Limited disposed of its 96% interests in Fitto Entertainment BVI and the benefit of the shareholder's loan to Questrel in March 1998.

Since the establishment of the first company of the Group in 1986 to 31st March, 1998, the Group has produced 125 karaoke discs and 49 CD albums.

STATEMENT OF ACTIVE BUSINESS PURSUITS

The following is a statement of the Group's active business pursuits for the year ended 31st March, 1999, for the year ended 31st March, 2000 and for the period from 1st April, 2000 to the Latest Practicable Date:

In respect of the year ended 31st March, 1999

Strategic development

During this period, the Group capitalised on the earlier success of introducing and promoting the Group's own artistes and brought in a new key personnel to the management team to reposition the Group's business of music production and distribution and artiste management. In February 1999, the Group formed a new company named Emperor Entertainment Group Limited, which has been renamed EEG Limited, and launched products under the ***EEG*** label.

Music production and distribution

In May 1998, the Group entered into a recording contract with Roman Tam, a well-known singer in Hong Kong.

The Group entered into a licence agreement with Telstar Records Limited of the United Kingdom in January 1999 for the right of exclusive distribution of albums under the label of Telstar Records Limited in Greater China commencing from October 1999.

During this period, the Group produced 11 CD albums, three VCD albums, two DVD albums and two LD albums. The following are highlights of the albums released by the Group during this period:

Artistes	**Name of the albums**
Nicholas Tse	Horizons
Nicholas Tse	末世紀呼聲
Grace Ip	In Your Arms
Grace Ip	RPG
Lillian Ho	My Dreams
Roman Tam	情繫佛羅內斯

Artiste management

During this period, the Group entered into both recording contracts and management agreements with four artistes including Joey Yung, Lillian Ho, Grace Ip and Nicholas Tse.

Highlights of the artiste management business of the Group during this period are set out as follows:

Number of appearance by artistes managed by the Group in programmes including shows and concerts:	120
Number of new advertising endorsement contracts entered into by artistes managed by the Group:	5
Number of films cast by artistes managed by the Group:	14

During the same period, the Group's managed artistes have received various music awards for the year 1998 including the following:

Artistes	**Awards**
Nicholas Tse	"Outstanding Performer" by TVB
Grace Ip	"Most Popular New Singer" by TVB
Lillian Ho	"Best New Singer" by RTHK
Lillian Ho	"Best New Singer" by Metro 997

Event production

In March 1999, the Group was one of the co-organisers of 羅文俄羅斯創世紀音樂會, featuring Roman Tam and the Voronezh State Symphony Orchestra in concert at the Hong Kong Convention and Exhibition Centre.

Overseas expansion

During this period, the Group commenced the planning and preparation of the establishment of its Taiwan office and the formulation of its business plan in Taiwan which included the expansion of its music production and distribution and artiste management businesses in the Taiwan market.

Employees

In January 1999, Mr. Lee, a veteran in the entertainment industry with over 20 years of experience, joined the Group as a director and the Chief Executive Officer of the Group. Details of Mr. Lee's experience are set out in the section headed "Directors, management and staff" in this prospectus.

As at 31st March, 1999, the Group had 30 full time employees who were engaged in the following operations:

Function	Number of full time employees
Corporate planning and strategy	2
Music production and distribution	12
Artiste management	5
Event production	1
Finance and administration	10
	30

In respect of the year ended 31st March, 2000

Strategic development

During this period, the Group further expanded its music production and artiste management businesses with a view to strengthening and establishing the brand name ***EEG***. With the extensive network of the management of the Group, the Group released 41 albums, solely and jointly organised six concerts and substantially increased the number of advertisement endorsement contracts entered into by the Group's artistes.

Music production and distribution

The Group entered into a licence agreement with Rykodisc Inc. in the US in October 1999 for distributing exclusively at least four albums per month during the period from 7th October, 1999 to 31st December, 2002 in Greater China.

During this period, the Group entered into recording contracts with Law Ka Leung and Cheung Ka Fai, two established actors based in Hong Kong. The Group has also entered into with Leung Chi Shan (i) an administration agreement for administrating the lyrics written by her and (ii) a management agreement whereby the Group was appointed as the exclusive manager for services to be provided by Leung Chi Shan, including lyrics writing, talk shows, design and performance.

The Group produced 29 CD albums, four VCD albums, four DVD albums and four LD albums during this period. In November 1999, the Group produced its first album in Taiwan, being 謝謝你的愛1999 by Nicholas Tse. The following are highlights of albums released by the Group during this period:

Artistes	**Name of the albums**
Nicholas Tse	Believe
Nicholas Tse	謝謝你的愛1999
Nicholas Tse	Most Wanted
Joey Yung	未知
Dave Wang	Giving
Grace Ip	Amazing
Lillian Ho	擁有
Lillian Ho	非份之想
Bondy Chiu	Inside

Artiste management

During this period, the Group entered into both recording contracts and management agreements with four artistes including Dave Wang, Jerald Chan and Eric Kwok.

Highlights of the artiste management business of the Group during this period are set out as follows:

Number of appearances by artistes managed by the Group in programmes including shows and concerts:	223
Number of new advertising endorsement contracts entered into by artistes managed by the Group:	16
Number of films cast by artistes managed by the Group:	18

During the same period, the Group's managed artistes received various music awards for the year 1999 including the following:

Artistes	Awards
Nicholas Tse	"Most Popular Male Singer" by Metro 997
Nicholas Tse	"Top Ten Singers" by RTHK
Nicholas Tse	"Best New Male Singer" by Channel V
Joey Yung	"Best New Vocalist" by Metro 997
Joey Yung	"Best New Talent" by TVB

Event production

Since mid-1999, the Group has been actively taking part in organising concerts for its own artistes as well as external artistes. The Group also solely organised two concerts and jointly organised four concerts during this period. Details of the concerts are set out in the section headed "Business activities" below.

Overseas expansion

In May 1999, the Group opened its Taiwan office and began to liaise with local Taiwanese entertainment participants, recruit new staff, arrange licensing business and promote the Group's existing artistes.

Employees

As at 31st March, 2000, the Group had 51 full time employees who were engaged in the following operations:

Function	Number of full time employees
Corporate planning and strategy	3
Music production and distribution	23
Artiste management	10
Event production	2
Finance and administration	13
	51

In respect of the period from 1st April, 2000 to the Latest Practicable Date

Strategic development

In November 2000, the Reorganisation took place for the purposes of the proposed listing of the Company in December 2000 and rationalising the Group's business. Subsequent to the Reorganisation, the Company became the holding company of the Group.

The Group launched the following websites which contain artistes' information, recommendations for new songs, gallery, forum and artistes' news for the promotion of the Group and its artistes:

Launch date	**Website name**
1st August, 2000	nicholas-tse.com
2nd August, 2000	joey-yung.com
3rd August, 2000	davewangmusic.com
22nd August, 2000	eegmusic.com
22nd August, 2000	musicplusasia.com
22nd September, 2000	easonchanmusic.com

In addition to the ***EEG*** label, the Group launched a new label, ***MUSICPLUS***, in August 2000. The label was launched to diversify the music production of the Group with the intention to create a new direction of music with music style, composition, lyrics and rhythm which are different from the traditional pop music.

Music production and distribution

During this period, the Group renewed the recording contracts with Roman Tam and Law Ka Leung for a year respectively.

In July 2000, the Group entered into an agreement with Lun Wing Leung, Anthony as a recording pianist for the preparation, performance and recording services of his musical works. In addition, the Group entered into an exclusive writer agreement with Jackson Lam for his composition and musical works.

In September 2000, the Group entered into both a recording contract and a concert agreement with Ekin Cheng and entered into a recording contract with Edison Chen.

In October 2000, the Group entered into a licence agreement with Yamaha Music Entertainment (Far East) Limited from Japan for the exclusive distribution of albums under the ***Yamaha*** label during the period from 1st October, 2000 to 30th September, 2003 and albums under the ***ARC*** label during the period from 1st January, 2001 to 31st December, 2003.

In October 2000, the Group entered into a joint promotion agreement and a sponsorship agreement with Macau Jockey Club in relation to the release of a special promotional album for Macau Jockey Club's promotional purpose on or before 31st December, 2000, for a promotional event jointly organised with Macau Jockey Club within the second quarter of 2001 and the sponsorship by Macau Jockey Club for the latest albums of certain artistes of the Group.

During this period, the Group produced 47 CD albums, two VCD album, one DVD album and one LD album. The following are highlights of the albums released by the Group during this period:

Artistes	**Name of albums**
Nicholas Tse	零距離
Nicholas Tse	霆鋒VIVA
Eason Chan	打得火熱
Joey Yung	不容錯失
Joey Yung	誰來愛我
Edison Chen	陳冠希Edison Chen EP
Law Ka Leung	十優一良
Bondy Chiu	最好慢慢來
Dave Wang	從今開始
Roman Tam	Shanghai New York

Artiste management

During this period, the Group entered into both recording contracts and management agreements with Eason Chan, Charlene Choi, Yumiko Cheng and Gillian Chung. In addition, the Group held the Super Talent Quest in October 2000 and recruited Chung Siu Hong, Michelle Zhang, Wong Keng, Luk Tung Shing and Hsieh Pin Han (for management agreement only), all of whom are finalists of the Super Talent Quest.

Highlights of the artiste management business of the Group during this period are set out as follows:

Number of appearances by artistes managed by the Group in programmes including shows and concerts:	117
Number of new endorsement contracts entered into by artistes managed by the Group:	23
Number of films cast by artistes managed by the Group:	16

Event production

During this period, the Group solely organised two concerts and jointly organised three concerts together with other organisers. Details of the concerts are set out in the section headed "Business activities" below.

Overseas expansion

During this period, the Group started the promotion of its artistes for advertising endorsements in Taiwan.

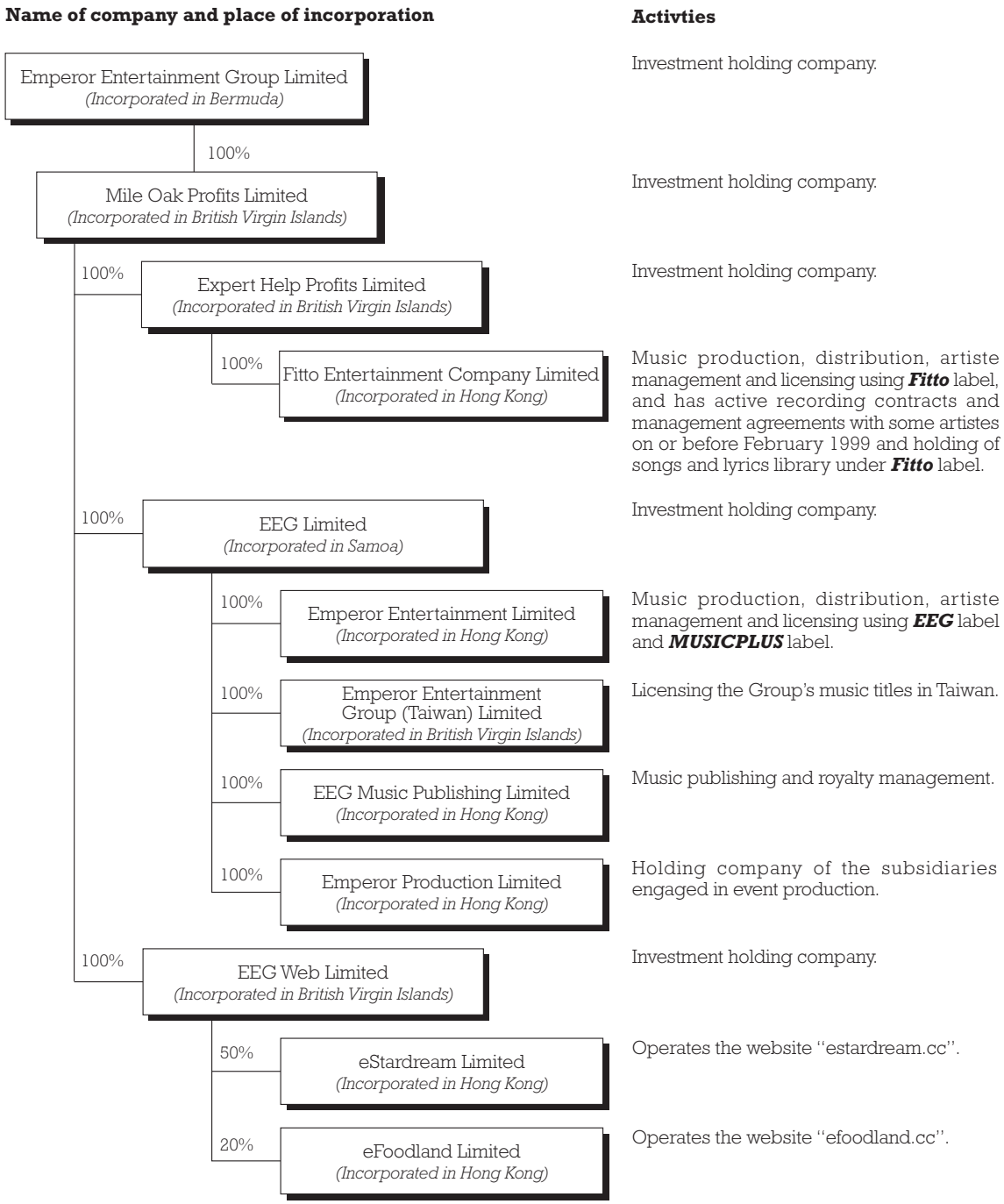
Employees

As at the Latest Practicable Date, the Group had 76 full time employees who were engaged in the following operations:

Function	Number of full time employees
Corporate planning and strategy	2
Music production and distribution	38
Artiste management	13
Event production	3
Finance and administration	20
	76

GROUP STRUCTURE

The Company was established as a limited liability company in Bermuda on 17th October, 2000. The Company is wholly owned by Questrel immediately before completion of the Share Offer. The Company will be owned as to 58.07% of its issued share capital by Questrel immediately after completion of the Share Offer (assuming the Over-allotment Option is not exercised) and the Pre-IPO Issue, and as to 54.78% of its issued share capital by Questrel immediately after completion of the Share Offer (assuming the Over-allotment Option is fully exercised) and the Pre-IPO Issue. The following chart sets out a simplified structure of the Group including its investments in eStardream and eFoodland:

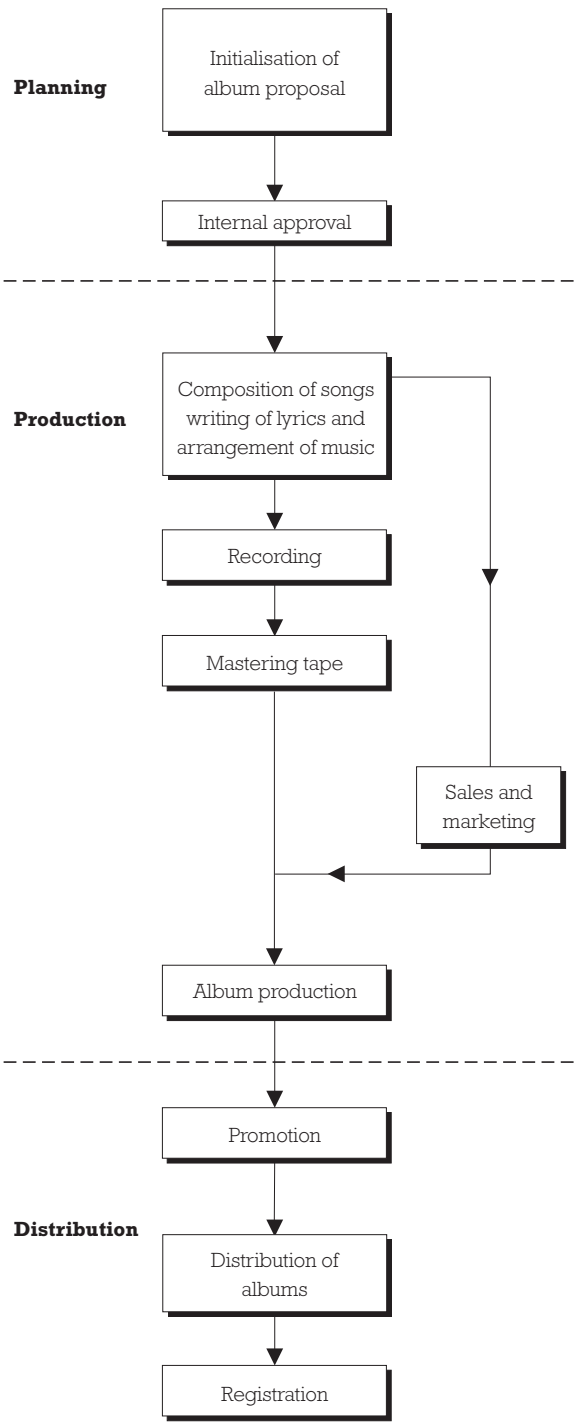


BUSINESS ACTIVITIES

Music production and distribution

Planning, production and distribution of the Group's own albums

A release of the Group's own music albums generally involves three steps, being planning, production and distribution. The following chart demonstrates the general procedures for a release:



Music production starts with the selection of appropriate artiste for recording and determination of the theme of the album and the music style. The budget, marketing strategy, production target and schedule will also be set before issuing a proposal for the review by the senior management and the Chief Executive Officer.

The proposal is formally presented to the Chief Executive Officer and senior management for review and approval.

Once the proposal is approved, the production department will search for suitable songs and lyrics. The Group may engage in-house or external song composers and lyrics writers. The in-house music producer will decide the music arrangement for the songs to be recorded.

When the songs, lyrics and artiste are ready, the recording of the artiste's performance will be conducted in external studios, with the Group's music producer and other musicians handling the recording of songs.

Upon the completion of recording, a master tape will be produced for mass production of CDs/VCDs/DVDs or other audio products.

The sales and marketing team of the Group is responsible for the promotion of music album and artiste. In order to effectively respond to eventualities such as change in demand of a newly release album, the sales and marketing team has to remain responsive and flexible, when deciding the production volume, marketing campaign and other promotional materials for the release of music albums.

The manufacturing of the CD/VCD/DVD, design and printing of album covers and other advertising materials is contracted with external service providers.

The sales and marketing team will co-ordinate with the Group's artiste management team to arrange for promotion campaigns for the music album through destined channels such as radios, televisions, shows, displays and print advertisements.

Manufactured albums will be distributed for sale through wholesalers and retail chains. Management will also monitor the sales and inventory levels in order to respond to market demand.

The artiste and repertoire division of the Group will register the songs and lyrics with IFPI and CASH to protect the copyright of songs and lyrics.

Since 1st April, 1998, the Group has released a total of 72 albums. Set out below is a list of these releases:

Month of the release	Name of the albums	Artistes	Type of albums
June 1998	In Your Arms	Grace Ip	CD
July 1998	情繫佛羅內斯	Roman Tam	CD
July 1998	Horizons	Nicholas Tse	CD, VCD
August 1998	我說過要你快樂	Bondy Chiu	CD, VCD
September 1998	情繫佛羅內斯	Roman Tam	24K Gold Disc CD
September 1998	情繫佛羅內斯	Roman Tam	VCD
September 1998	情繫佛羅內斯	Roman Tam	DVD
October 1998	飛圖加州紅推介系列卡拉OK	Compilation	VCD
October 1998	My Dreams	Lillian Ho	CD, VCD
October 1998	飛圖加州紅推介系列卡拉OK	Compilation	LD
December 1998	蘭桂芳的傾斜度	Grace Ip	CD
December 1998	末世紀呼聲	Nicholas Tse	CD
January 1999	飛圖嘉禾推介系列卡拉OK	Compilation	LD
February 1999	飛圖嘉禾推介系列卡拉OK	Compilation	VCD
March 1999	RPG	Grace Ip	CD, VCD
March 1999	情繫佛羅內斯(Silver)	Roman Tam	CD
April 1999	超人帝拿 – 勁！勁！勁！動畫歌集	Compilation	CD
April 1999	Believe	Nicholas Tse	CD, VCD
June 1999	擁有	Lillian Ho	CD, VCD
July 1999	俄羅斯創世紀音樂會	Roman Tam	CD
August 1999	Believe	Nicholas Tse	CD (Special edition)
September 1999	俄羅斯創世紀音樂會	Roman Tam	VCD
September 1999	俄羅斯創世紀音樂會	Roman Tam	DVD
September 1999	俄羅斯創世紀音樂會	Roman Tam	LD
September 1999	謝謝你的愛1999	Nicholas Tse	CD, VCD
October 1999	未知	Joey Yung	CD, VCD
October 1999	Inside	Bondy Chiu	CD, VCD
November 1999	Original Soundtrack – 創世紀	Compilation	CD
November 1999	謝謝你的愛1999	Nicholas Tse	CD, VCD (Taiwan edition)
November 1999	非份之想	Lillian Ho	CD
December 1999	加州紅紅人館903狂熱份子音樂會	Nicholas Tse	DVD
December 1999	加州紅紅人館904狂熱份子音樂會	Nicholas Tse	LD
December 1999	加州紅紅人館905狂熱份子音樂會	Nicholas Tse	VCD
December 1999	Most wanted	Nicholas Tse	CD
December 1999	EEG 千禧精選	Compilation	CD, VCD
December 1999	深情之選	葉玉卿	CD, VCD
December 1999	未知	Joey Yung	CD (Special edition)
January 2000	Giving	Dave Wang	CD
January 2000	EEG Karaoke Volume 1 非唱不可	Compilation	VCD
January 2000	Most wanted Karaoke	Nicholas Tse	VCD
February 2000	EEG Karaoke Volume 1 非唱不可	Compilation	DVD
February 2000	EEG Karaoke Volume 1 非唱不可	Compilation	LD

Month of the release	Name of the albums	Artistes	Type of albums
February 2000	Most wanted Karaoke	Nicholas Tse	DVD
February 2000	Most wanted Karaoke	Nicholas Tse	LD
February 2000	Amazing	Grace Ip	CD
March 2000	Amazing	Grace Ip	CD, VCD
March 2000	英皇盛世Compilation Vol. 1	Compilation	CD
April 2000	十優一良	Law Ka Leung	CD
April 2000	不容錯失	Joey Yung	CD, VCD
April 2000	Giving	Dave Wang	CD, VCD
May 2000	零距離	Nicholas Tse	CD, VCD
June 2000	最好慢慢來	Bondy Chiu	CD, VCD
June 2000	EEG 英皇盛世 Karaoke Volume 1	Compilation	DVD
June 2000	EEG 英皇盛世 Karaoke Volume 1	Compilation	LD
June 2000	EEG 英皇盛世 Karaoke Volume 1	Compilation	VCD
July 2000	了解	Nicholas Tse	CD (Taiwan edition)
July 2000	創世紀完結篇	Compilation	CD
July 2000	英皇盛世Compilation Vol. 2	Compilation	CD
August 2000	從今開始	Dave Wang	CD, DVD
August 2000	愛得起	Cheung Ka Fai	CD, VCD
August 2000	精選大碟	Nicholas Tse	CD
September 2000	誰來愛我	Joey Yung	CD
September 2000	打得火熱	Eason Chan	CD, VCD
September 2000	了解	Nicholas Tse	CD (Hong Kong edition)
October 2000	誰來愛我	Joey Yung	CD, VCD
October 2000	Swing	Swing	CD
November 2000	霆鋒VIVA	Nicholas Tse	CD
November 2000	打得火熱	Eason Chan	CD, VCD (special edition)
November 2000	英皇盛世 Compilation Vol. 3	Compilation	CD
November 2000	Shanghai New York	Roman Tam	CD, DVD
November 2000	陳冠希Edison Chen EP	Edison Chen	CD, VCD
November 2000	英皇盛世國語精選 Vol. 1	Compilation	CD

Since 1st April, 1998, the Group's albums were awarded with three platinum and one double platinum awards. Details of such awards are set out as follows:

Name of the albums	Artistes	Type of albums	Awards
Most Wanted	Nicholas Tse	CD	Double Platinum
Giving	Dave Wang	CD	Platinum
不容錯失	Joey Yung	CD	Platinum
零距離	Nicholas Tse	CD	Platinum

The Group's albums are released under two labels, being ***EEG*** and ***MUSICPLUS***. All the albums produced by the Group since the launch of EEG label in February 1999 have been released under the ***EEG*** label and ***MUSICPLUS*** label except for the compilation of Fitto karaoke albums distributed in 1999. At present, the Group has entered into recording contracts with 21 artistes. All the recording contracts are exclusive. Under the recording contracts, the Group pays royalties to artistes in accordance with the terms as specified therein. The Group pays artiste royalty to artistes and mechanical royalty to song composers and lyric writers based on the actual sales or licensing of the relevant albums. In addition, the Group usually pays an advance to the established artistes for joining the Group under the relevant recording or management contract. Such advance is the minimum benefit to the artiste, and is deductible and recoupable against the artiste royalties and/or performance fee receivable by the artiste after netting the Group's artiste management commission charges, if applicable. Under the existing recording contracts, the artiste royalty rate payable by the Group for sales of the Group's albums ranges from approximately 4% to 17% of the net wholesale price for audio products and from approximately 2% to 15% of the net wholesale price for audio and visual products respectively. The Group also pays artistes royalties for licensing of the Group's albums to third parties at a range of 20% to 50% of the net licence fees received.

The following table sets out the names of these artistes and the labels under which their albums are/to be released:

EEG	***MUSICPLUS***
Edison Chen（陳冠希）	Eason Chan（陳奕迅）
Yumiko Cheng （鄭列瓊）	Ekin Cheng（鄭伊健）
Cheung Ka Fai（張家輝）	Grace Ip（葉佩雯）
Bondy Chiu（趙學而）	Swing (featuring Eric Kwok（郭偉亮）and Jerald Chan（陳偉強）)
Charlene Choi（蔡卓妍）	Roman Tam（羅文）
Chung Siu Hong （鍾兆康）	
Lillian Ho（何嘉莉）	
Law Ka Leung（羅嘉良）	
Nicholas Tse（謝霆鋒）	
Dave Wang（王傑）	
Joey Yung（容祖兒）	

The other four artistes, namely Michelle Zhang, Wong Keng, Luk Tung Shing and Gillian Chung are newly recruited and the Group has not determined the labels under which their albums are to be released.

Distribution of catalogues licensed from third parties

Apart from the distribution of its own albums, the Group also distributes music catalogues licensed from third parties. Under the licensing arrangements, the Group either reproduces albums from the master tape provided by the licensors and distributes such albums or directly distributes albums supplied by the licensors within the licensed territory. The royalty paid by the Group to the licensor is calculated on the basis of the quantity manufactured and sold. In general, the Group pays the licensor a royalty fee in advance and pays the additional royalty fee only when the quantity of the albums manufactured and sold exceeds the quantity based on which the advance royalty fee is calculated. Under the Group's existing licensing arrangements, the royalties paid to the licensors range from 22% to 25% of the sales.

The Group has entered into exclusive licence agreements with three international record companies, namely Telstar Records Limited, Rykodisc Inc. and Yamaha Music Entertainment (Far East) Limited. Telstar Records Limited is a record company in the United Kingdom. In December 1998, Telstar Records Limited's records was the number one independent label in the United Kingdom. Well known contracted artistes of Telstar Records Limited include Craig David, BB Mak and Code Red. Rykodisc Inc. is a family of affiliated labels sharing a commitment to present the finest in contemporary and traditional music across a highly diverse landscape of style and genre. Well known contracted artistes of Rykodisc Inc. include Frank Zappa and the Supreme Beings of Leisure. Yamaha Music Entertainment (Far East) Limited is a record company based in Japan and is an owner of two labels ***Yamaha*** and ***ARC***. Well known artistes of Yamaha Music Entertainment (Far East) Limited include Nakajima Miyuki, Yukie Nishimura, Yukiyo Nakamura and Chage and Aska. All arrangements are for the distribution of the licensor's albums in the Greater China region and will expire in 2001, 2002 and 2003 respectively with no option to extend except for the licence agreement with Yamaha Music Entertainment (Far East) Limited.

Since 1st April, 1998, the Group has distributed over 36 CD albums, one VCD album and one DVD album under the exclusive licensing arrangement. A summary of such albums is set out below.

Month of the release	Name of albums	Artistes	Type of albums
May 1998	DISC 1/2	Leslie Cheung	CD
May 1998	DISC 1/2	Leslie Cheung	DVD
May 1999	想你想瘋了	柯以敏	CD
August 1999	五月的雪	游鴻明	CD
October 1999	陶喆 David Tao	David Tao	CD
December 1999	魔霆癡狂	Nicholas Tse，黃大煒，游鴻明，黃中原	CD
December 1999	I'M OK	David Tao	CD, VCD
March 2000	不夜城	EZ5 Pub 傳奇	CD
March 2000	Beauty	柯以敏	CD
March 2000	宇多田 U^3.STAR	宇多田光	CD
March 2000	Sooner or Later	BB Mak	CD
March 2000	秋天 1994	黃大煒	CD

Month of the release	Name of albums	Artistes	Type of albums
May 2000	Boy's Don't Cry – Original Sound Track	Compilation	CD
May 2000	American Psycho – Original Sound Track	Compilation	CD
June 2000	肩膀	洪暐	CD
June 2000	Start with the Soul	Alvin Youngblood Hart	CD
June 2000	遇見	鮑比達 & 蔡琴	CD
June 2000	Now Phats what I Small	Phats & Small	CD
July 2000	Ancoats 2 Namboos	The Baby Namboos	CD
July 2000	The Night	Morphine	CD
July 2000	Trilenium	Sash	CD
July 2000	Crimson	Code Red	CD
July 2000	Supreme Beings of Leisure	Supreme Beings of Leisure	CD
August 2000	On What A World	Paul Brady	CD
August 2000	Fusebox	Jolly Mukherjee	CD
August 2000	Sogo	Baka Beyong	CD
August 2000	Nos	Virginai Rodrigues	CD
September 2000	Do Community Service	Monk & Canatella	CD
September 2000	Nava	Nava	CD
September 2000	More Grip	Sidestepper	CD
September 2000	Phat Global# 1	Various Artistes	CD
September 2000	Born To Do It	Craig David	CD
September 2000	陶喆首張精選Karaoke VCD	David Tao	VCD
October 2000	Songs from the Tin	Da Lata	CD
October 2000	My Fault	Metisse	CD
November 2000	Aural & Hearly	Mocean Worker	CD
November 2000	Tala Matrix	Tabla Beat Science	CD
November 2000	The 6ixth Session	Dieselboy	CD

Licensing of the Group's albums and catalogues licensed from third parties for overseas distribution

For the overseas release of the Group's albums and catalogues licensed from third parties, the Group generally enters into licensing arrangements with foreign distributors including those in the PRC, Taiwan, Singapore and Malaysia. Under such arrangements, the Group provides the master tape, sometimes with printings of the albums while the foreign distributors handle the manufacturing of the albums. The licence fee received by the Group is calculated on the basis of the quantity manufactured and sold. In general, the Group receives a non-refundable licence fee in advance and may receive an additional licence fee only if the quantity sold exceeds the quantity based on which the advance licence fee is calculated. Under the existing licensing arrangements, the licence fees receivable by the Group are calculated on the basis of approximately HK$1.3 to HK$2.0 per cassette and approximately HK$15 per CD for distribution in the PRC and at a range of 20% to 25% of the sales of CD for distribution in Taiwan.

Licensing of the Group's songs and/or lyrics

The Group has an inventory of songs and lyrics. From time to time, the Group licenses its songs and/or lyrics to other record companies for producing albums and other audio and visual products. The present licence fee received in advance by the Group for licensing its songs and lyric does not exceed HK$7,000 per song/lyric.

Source of income and cost

Income derived from the Group's music production and distribution activities can be broken down as follows:

— sale of albums released by the Group;

— sale of albums licensed from third parties; and

— licence fees received by the Group for the licensing of the Group's albums and catalogues licensed from third parties for overseas distribution, and for the licensing of the Group's songs and/or lyrics.

From time to time, the Group also receives royalties collected by IFPI and CASH in respect of the songs and/or lyrics of the Group. Such royalties have been classified as other income of the Group. Royalty receivable from IFPI arises from the broadcasting of the Group's songs which is monitored and collected by IFPI. Royalty is also receivable from CASH which arises from the broadcasting and public performance of the Group's lyrics which is monitored and collected by CASH.

The cost of music production and distribution includes production cost of albums (mainly recording cost, design fee, advertising and promotion expenses, and MTV production fee), press and printing cost of music albums and licence expenses. In addition, the Group pays artiste royalty to artistes and mechanical royalty to song composers and lyric writers based on the actual sales of the relevant albums. Under the existing arrangements, the mechanical royalties are paid to song composers and lyrics writers on the basis of approximately 5% of the sales for visual products and 7% of the sales for non-visual audio products in Hong Kong and approximately 5% of the sales for both visual and non-visual audio products in Taiwan.

Artiste management

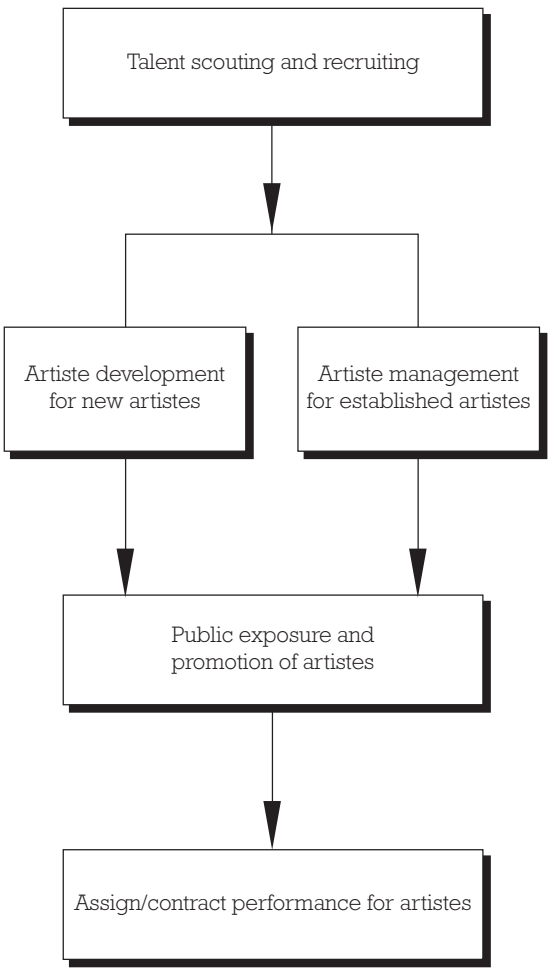
The artiste management business of the Group generally involves the Group acting as sole and exclusive agent or manager of the artistes in all aspects of entertainment. Major responsibilities of the Group include the following:

- negotiating contracts on behalf of the artistes for commercials, advertisements, movies, concerts and shows;
- preparing work schedule of the artistes; and
- liaising with the relevant parties regarding the artistes' work schedule and activities.

Under the management agreements, the Group usually pays an advance to the artistes and charges commission at a rate which is specified in the relevant management agreement on the performance fees receivable by the artistes under the performance contracts. Such advance is deductible and recoupable against all or part of the artistes' total income (including performance fee and artiste royalty) after netting commission charge. Under the existing management agreements, the commission charged by the Group ranges from 20% to 50% of the performance fees receivable by the artistes.

For its artiste management business, the Group has adopted the strategy to put more emphasis on recruiting new artistes whom the senior management believes to be of potential in addition to signing on established artistes. Although additional time will be required in training and promoting new artistes, and risks exist that the performance and popularity of the new artistes may not meet the Group's expectation, the Directors believe such strategy can enhance the growth of the Group, maintain a balanced portfolio of artistes and minimise the cost of investment by the Group in its artistes. Of the 17 contracted artistes of the Group which are managed under the management agreements, 13 were new to the music and entertainment industry.

The Group mainly selects two types of artistes for development: (i) young and appealing individuals with potential who are new to the music entertainment industry; and (ii) artistes who already have an established position in the music entertainment industry. The flow chart below summaries the procedures for artiste management system:



Recruiting both new talents and established artistes through different channels.

The Group provides a tailored artiste management programme for each artiste. For new artistes, the Group generally provides training in different areas including singing, styling and imaging to the artistes and determines their initial market positioning. For established artistes, the Group generally provides training on new skills and/or repositions the artistes in the market, if required.

Arranging public exposure and promoting artistes through selective channels such as press, radio, television and attendance of functions before procuring entertainment performance for the artistes.

Assigning/contracting selective entertainment performance such as music recordings, advertisements, television programmes, movie castings and other show performance for the artistes.

The training period varies among new artistes. In general, new talents will receive six months to one year of training in singing technique, dancing and stage performance by external providers before the Group releases the artistes for performance. For established artistes, they will generally receive on-going training on new skills, if required.

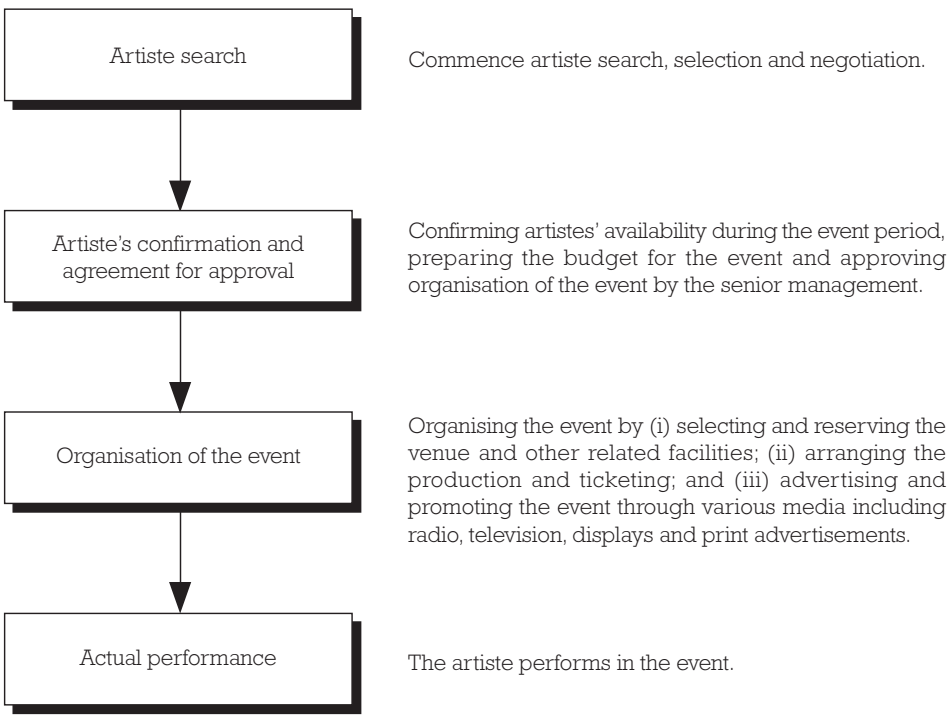
Through the Group's introduction and/or liaison, the artistes of the Group have performed a number of events from 1st April, 1998 to the Latest Practicable Date. Highlights of the events participated by the artistes managed by the Group are set out as follows:

Number of appearances by artistes managed by the Group in programmes including shows and concerts:	460
Number of new endorsement contracts entered into by artistes managed by the Group:	44
Number of films cast by artistes managed by the Group:	48

Particulars of the artistes who have entered into management agreements with the Group are set out under the section headed "Contracted artistes" below.

Event production

The Group is engaged in the organisation of events including music concerts and shows solely or jointly with other organisers. The following chart demonstrates the general procedures for organising an event by the Group:



Since 1st April, 1998, the Group has participated in the organisation, solely or jointly, of the following concerts:

Date	Name	Venue	The Group's role
18th to 20th March, 1999	羅文俄羅斯創世紀音樂會	Hong Kong Convention and Exhibition Centre Hall 3	Joint organiser
10th July, 1999	Golden Pop Concert (當年情音樂會) – Pop I (featuring Classics 4, The Drifters & Hermits)	Hong Kong Convention and Exhibition Centre Hall 3	Joint organiser
7th October, 1999	Millennium Charity Instrumental Concert (featuring Japanese musician Yukiyo Alakamura (中村幸代) and Yukie Nishimura (西村由紀江))	Hong Kong City Hall	Joint organiser
14th December, 1999	Walk Hand in Hand Live in Hong Kong – Pop II (featuring Gerry & The Pacemakers and The Drifters)	Hong Kong Convention and Exhibition Centre Hall 3	Joint organiser
4th to 11th February, 2000	Alan Tam Millennium Concert (譚詠麟魅力千禧演唱會)	Hong Kong Coliseum Arena	Joint organiser
23rd February, 2000	Dave Wang's "Giving for the children" Concert	Hong Kong Coliseum Arena	Sole organiser
26th to 27th February, 2000	Kinki Kids Millennium Concert	Hong Kong Convention and Exhibition Centre Hall 3	Sole organiser
29th to 30th July, 2000	Koji Tamakis' (玉置浩二) Hong Kong Super-T Concert	Hong Kong Convention and Exhibition Centre Hall 3	Sole organiser
25th to 26th October, 2000	Tokio Concert Tour 2000 in Hong Kong	Hong Kong Elizabeth Stadium Arena	Joint organiser
10th to 11th November, 2000	Luna Sea Concert in Hong Kong	Hong Kong Convention and Exhibition Centre	Joint organiser
11th to 15th and 18th November, 2000	Nicholas Tse in Concert 2000	Hong Kong Coliseum Arena	Joint organiser
19th November, 2000	H2O+Joey Yung Charity Concert	Hong Kong Coliseum Arena	Sole organiser

Revenues generated from event production are generally derived from the ticket sales of the events. For jointly organised events, the Group will generally share the profit/loss of the event in proportion to their respective interest in the project (which varies from 50% to 60% based on the jointly-organised events since 1st April, 2000) pursuant to the terms of the relevant agreement. Costs of event production generally includes rental charges for venue, CASH royalties, performance cost for artiste and band, remuneration for event producer, floor manager and assistants, ticket printing fee, booking cost of venue, music arrangement fee, rehearsal fee for bands and studios, stage set-up cost, costume, and stage props, advertising and promotion costs, and other operation costs.

CONTRACTED ARTISTES

Type of contracts

At present, the Group has 16 contracted artistes with both recording contracts and management agreements and five contracted artistes with recording contracts only. All these contracts are exclusive. In addition, the Group has one contracted artiste with management agreement only. The table below sets out the names of these artistes (in alphabetical order) and the respective contract dates.

In respect of artistes with both recording contract and management agreement

Name	Contract date
Eason Chan（陳奕迅）	1st July, 2000
Yumiko Cheng（鄭列瓊）	20th July, 2000
Bondy Chiu（趙學而）	25th October, 1996
Charlene Choi（蔡卓妍）	19th July, 2000
Chung Ka Lai, Gillian（鍾嘉勵）	1st November, 2000
Chung Siu Hong（鍾兆康）	24th October, 2000
Lillian Ho（何嘉莉）	25th September, 1998
Grace Ip（葉佩雯）	25th September, 1998
Luk Tung Shing（陸東城）	23rd October, 2000
Swing (featuring Eric Kwok（郭偉亮）and Jerald Chan（陳偉強）)	13th March, 2000
Nicholas Tse（謝霆鋒）	9th October, 1998
Dave Wang（王傑）	17th August, 1999
Wong Keng（汪鏡）	24th October, 2000
Joey Yung（容祖兒）	1st April, 1998
Michelle Zhang（張佳佳）	24th October, 2000

In respect of artistes with recording contract only

Name	Contract date
Edison Chen（陳冠希）	27th September, 2000
Ekin Cheng（鄭伊健）	7th September, 2000
Cheung Ka Fai（張家輝）	3rd September, 1999
Law Ka Leung（羅嘉良）	1st June, 1999
Roman Tam（羅文）	27th May, 1998

In respect of artistes with management agreement only

Name	Contract date
Hsieh Pin Hon（謝秉翰）	31st October, 2000

Contract terms

For the artistes with both recording contracts and management agreements, their contract terms with the Group range from four to 10 years. An analysis of the unexpired terms of such contracts and agreements is set out below:

Term	Number of artistes as at the Latest Practicable Date
Less than two years	1
Two to five years	3
More than five years	12
	16

Save for the agreement of Bondy Chiu, whose recording contract and management agreement will expire in February 2001, the contracts of the other artistes (who have both recording contracts and management agreements with the Group) will expire during the period from March 2004 to October 2010. The contracts of the five artistes (who have recording contracts with the Group only) will expire during the period from May 2001 to September 2003. For the contract with artiste who has management agreement with the Group only, it will expire in October 2010.

Particulars of the artistes

Particulars of the artistes (in alphabetical order) are set out as follows:

Eason CHAN（陳奕迅）is an established male singer. He acquired four years of music training at Kingston University in the United Kingdom. In 1995, he was the gold winner of the "14th Talent Singing Contest" organised by TVB. His first album was released in 1996. Since then, Eason has released a total of 12 albums with one album receiving platinum award. The award winning album was released by him after he joined the Group in August 2000. Earlier this year, Eason has received the RTHK "Top Ten Male Singers" award, "勁爆歌手突破大獎 - 男歌手" by Metro 997 and the CRHK "Male Singer" silver award. His title "幸福摩天輪" was awarded as the "Top Ten Songs in 1999" by both CRHK and TVB and as "My Favourite Song" by CRHK.

Ekin CHENG（鄭伊健）is an established male singer and actor. Ekin first drew public attention at the age of 18 when he shot a television commercial. His first two albums "Don't Cry" and "Sahara" were released in 1991 and have gained Ekin a position for further development in the industry. Since the release of Ekin's fifth album "My Best Show", his albums continue to achieve double platinum awards. His first solo concert was held in 1998 with eight consecutive shows all held at the Hong Kong Coliseum Arena. Over the years, Ekin has released a total of 30 albums and has starred in various television series and movies including the blockbusters "The Young & Dangerous" series I to VI, "Feel 100%" I & II and "The Stormriders". Throughout his singing career, he has received several major music awards such as the "Top five best Selling Artistes" in both 1997 and 1998 by RTHK. In addition, Ekin's songs received several major music awards such as "The Second Most Preferred Song of the Year" by CRHK in 2000, "Top Ten Songs Award" in 1997, 1998 and 1999 by RTHK and in 1997 by TVB. In September 2000, he joined the Group as a singing artiste.

CHEUNG Ka Fai（張家輝）is a male singer and an established actor. He has starred in over 20 television series and 12 movies including the hits "天地豪情", "Healing Hands（妙手仁心）" and "賭聖 III". In August 1999, he joined the Group and subsequently released his first single album "愛得起" in July 2000.

Bondy CHIU（趙學而）is a female singer and started her career as an artiste in TVB. She has released eight albums since joining the Group in 1993. Over the years, Bondy has casted in three movies.

Lillian HO（何嘉莉）is a female singer. Her first EP album, "My Dreams" and first album "Possession" were released in October 1998 and in May 1999 respectively. In 1998, she received "Gold Award for New Singers" from RTHK, the "Gold Award for New Singers" from Metro Broadcast and the "Silver Award for the Most Popular New Singers" from TVB.

Grace IP（葉佩雯）is a female singer and one of the selected few apprentices of the top Japanese composer/producer Tetsuya Komuro. In 1998, she received the "Gold Award for the Most Popular New Singers" from TVB, the "Silver Award for New Singers" from RTHK and the "Silver Award for New Singers" from Metro Broadcast. Her first solo album "RPG" was released in March 1999 and topped the then No. 1 IFPI chart. Grace has starred in the movie "Generation X Cop" and the TVB's 100-episode-series "創世紀".

LAW Ka Leung（羅嘉良）is a male singer and an established actor. He started his career as an actor in 1986 and has since featured in over 40 television series and four movies including "難兄難弟" and "天地豪情". His music albums for these two television series achieved double platinum and platinum awards respectively. His first solo concert was held in 1998 for two consecutive nights in the Hong Kong Coliseum Arena. In April 2000, he joined the Group and released the album "十優一良".

Swing, featuring Eric KWOK（郭偉亮）and Jerald CHAN（陳偉強）is a singing and song writing group. Eric graduated in the United States with his major in mass media, while Jerald graduated in Canada with his major in music. In November 1999, their first album ''Snowman'' was released. This album was characterised with a mixture of jazz, rhythm and blues, dance beat and canto pop music. Their compositions for other singers such as Eason Chan's ''幸福摩天輪'' was awarded as ''My Favourite Song in 1999'' by CRHK and ''Media Song Award in 1999'' by the four main media broadcast, namely TVB, RTHK, CRHK and Metro 997. Eric and Jerald joined the Group in February 2000 and renamed themselves Swing in September 2000. After joining the Group, they released their second album ''Swing'' in October 2000.

Roman TAM（羅文）is an established male singer in Hong Kong. Roman enjoys a high level of popularity in Hong Kong and among many other Chinese communities during the last two decades. His latest album ''情繫佛羅內斯'' is a remix of his golden Cantonese pop hits, written by maestro Joseph Koo and lyric writer James Wong, with the Voronezh State Symphony Orchestra. Roman held his latest concerts at the Hong Kong Convention and Exhibition Centre in March 1999 together with the Voronezh State Symphony Orchestra.

Nicholas TSE（謝霆鋒）is an established male singer, an actor and a song writer. He has received numerous music awards including ''The Best New Male Talent'' gold awards by TVB, Metro 997, RTHK and Guaugzhou Radio respectively and ''New Male Talent'' silver award by CRHK in 1998. In 1999, his performance was further recognised when he received music awards such as ''Most Popular Male Singer'' by Metro 997, ''Top Ten Singer'' by RTHK, ''Best New Male Singer'' by Channel V and ''Most Popular Male Singer'' by Guangzhou's Original Songs Award. His song ''非走不可'' also received general recognition and was voted one of the ''Top Ten Songs of the Year'' by Metro 997, CRHK, TVB, RTHK and American Chinese Broadcast respectively. Up to the Latest Practicable Date, he has released nine albums with ''零距離'' received platinum award and ''Most Wanted'' received double platinum award. He has starred in the movie ''Generation X Cop''. In April 1999, Nicholas received the ''Best New Actor Award'' in the 18th Hong Kong Film Awards. His first solo concert was held in September 1999 for two consecutive nights. Nicholas held his latest solo concert in the Hong Kong Coliseum in November 2000 for six nights.

Dave WANG（王傑）is an established male singer and an actor. In 1987, his first album, ''一場遊戲一場夢'', became a hit and has sold over 500,000 units worldwide. From 1989 to 1994, he released over 10 albums. During the early 1990s, albums such as ''忘了你忘了我'', ''是否我真的一無所有'' and ''孤星'' sold between 400,000 to 500,000 units each. In 1992, his ninth album, ''All By Myself'', achieved the sales record of over 3,000,000 units. He has held solo concerts in various locations including Hong Kong, Singapore and North America. He has also casted in several movies including ''Seven Wolves'' and ''戰龍在野''. He joined the Group in 1999 and released the Cantonese album ''Giving'' in January 2000, which has received platinum award. Dave held the ''Giving for the Children'' concert in the Hong Kong Coliseum in February 2000. He has received several major music awards such as ''The Most Popular Male Singer in 1989'' by Album Magazine, the ''New Talent Award'' and ''Twelve Super Star'' in 1992 from ''Youth Express Magazine''.

Joey YUNG（容祖兒）is a female singer. She has released three albums since joining the Group in 1998. Both her first EP album "未知" and the second album "不容錯失" received platinum award. "未知" has also received "The Top 10 Song of the Year" by Metro 997 and "The Best Cover Version Song" by TVB and RTHK respectively in 1999. In 1999, she received the "Best New Vocalist in 1999" by Metro 997, "Best New Talent" gold award by TVB, "Female New Talent" bronze award by CRHK, "Great Potential New Talent" silver award by RTHK, "Best Female New Talent" silver award by the Sino Radio Broadcast Corporations. Joey held her first solo concert in Hong Kong Coliseum on 19th November, 2000.

The Group has entered into management agreements and/or recording contracts with some new artistes comprising Yumiko CHENG（鄭列瓊）, a female artiste recruited by the Group in August 2000; Charlene CHOI（蔡卓妍）, a female artiste recruited by the Group in July 2000; Edison CHEN（陳冠希）, a male artiste recruited by the Group in September 2000; CHUNG Siu Hong（鍾兆康）, a male artiste recruited by the Group in October 2000; Michelle ZHANG（張佳佳）, a female artiste recruited by the Group in October 2000; WONG Keng（汪鏡）, a female artiste recruited by the Group in October 2000, LUK Tung Shing（陸東城）, a male artiste recruited by the Group in October 2000; HSIEH Pin Hon（謝秉翰）, a male artiste recruited by the Group in November 2000; and Gillian CHUNG（鍾嘉勵）, a female artiste recruited by the Group in November 2000.

SONGS AND LYRICS LIBRARY

The Group has been building up a songs and lyrics library to provide a source of supply of songs for the Group's music production. Since the establishment of the Group in 1986, it has produced and maintained 1998 songs and lyrics in the Group's songs and lyrics library.

Upon the release of new songs to the public, the Group will register the songs or/and lyrics by submitting a registration form to INTERCOR (International Copyright Recording Limited), a wholly owned subsidiary of IFPI, which administers a private registration system for its members' sound recordings. Due registration with INTERCOR helps to assert copyright protection. The Group also registers the songs/lyrics with CASH to enforce its copyrights. IFPI and CASH will then collect royalties on the Group's behalf for the broadcasting and public performances of such songs.

In building up the Group's songs and lyrics library, it has entered into agreements with the following artistes: (i) Leung Chi Shan for the administration of lyrics written by her and exclusive management for services to be provided by her including lyrics writing, talk shows, design and performance; (ii) Lun Wing Leung, Anthony as a recording pianist for the preparation, performance and recording services of his musical works; and (iii) Jackson Lam as a composer for his composition and musical work. Such agreements will expire during the period from July 2003 to October 2004.

On 26th April, 1999 and pursuant to an internal restructuring exercise Fitto Entertainment BVI, (a indirect non wholly-owned subsidiary of Questrel), Fitto Entertainment, Emperor Entertainment Limited and EEG Limited (all of these three companies are wholly-owned subsidiaries of the Company) granted the licence to exploit the worldwide internet streaming rights over all songs produced by them as at 26th April, 1999 and all those to be produced by them up to 31st December, 2003 to Record Breakers and Glorious Twelfth (the then indirect wholly-owned subsidiaries of Questrel), for a period of 50 years for HK$4. On 5th April, 2000, Amazing Growth Profits Limited, (a former subsidiary of

eDaily Group Limited), acquired the entire issued share capital of Record Breakers and Glorious Twelfth from Questrel for HK$70.3 million. On 30th June, 2000, in preparation of the listing of the Shares on GEM, an amount of HK$75,000,000 due to Questrel was waived under the deed, details of which are set out in sub-paragraph (e) under the paragraph headed "Summary of material contracts" in the section headed "Further information about the business" in appendix V to this prospectus. The Directors consider that the restructuring and the waiver referred to above are fair and reasonable and in the interest of the Group.

STRATEGIC INVESTMENTS

As an alternative means to promote the Group and its artistes, the Group entered into arrangements to jointly develop eFoodland and eStardream in January 2000. Such investments provide opportunities for the Group to participate in the technology investment field, recruit new artists, increase the public exposure of its artistes and promote the Group's popularity through the internet.

eFoodland was set up to operate a multi-lingual website under the domain name *"www.efoodland.cc"* containing information on Chinese food culture, Chinese cuisine, recipes, chefs, restaurants and dining guide. eFoodland is currently owned as to 30% of its entire issued share capital by eDaily Group Limited (in which Emperor International has a 50% equity interest), 40% by Global Food Culture Group Limited (in which Questrel is a controlling shareholder), 10% by EMG Web Limited (an indirectly wholly-owned subsidiary of Questrel) and 20% by the Group. The investment of eFoodland is estimated to be approximately HK$5 million which will be shared among its shareholders according to their respective shareholdings in eFoodland.

eStardream was set up to develop a multi-lingual website in the entertainment industry under the name *"www.estardream.cc"* tentatively to be launched in the second half of 2001. The website will contain a database on entertainers and practitioners in the industry. It is intended to provide a forum and databank for talented people interested in the industry to introduce themselves to entertainers and practitioners, thus creating opportunities for them to enter the industry. eStardream is currently owned indirectly as to 40% of its entire issued share capital by eDaily Group Limited, 10% by EMG Web Limited and 50% by the Group. The investment of eStardream is estimated to be approximately HK$5 million which will be shared among its shareholders according to their respective shareholdings in eStardream.

Details of the investments in eFoodland and eStardream are also set out in the section headed "Connected transactions" in this prospectus.

CUSTOMERS

The Group's major customers are mainly record dealers and record retail chains in Hong Kong. In general, sales are made on an open account basis with credit terms ranging from 45 to 60 days. The doubtful trade debts of the Group for the year ended 31st March, 2000 represented about 1.0% of the turnover of the Group.

The five largest customers of the Group, which have established relationships with the Group since 1995 to 1999, represented approximately 48.2% of the Group's turnover for the year ended 31st March, 2000. The largest customer, which is a third party independent of the Directors, chief executive or substantial shareholders of the Company, any of its subsidiaries or their respective Associates, accounted for approximately 17.5% of the Group's turnover for the same year.

None of the Directors, their respective Associates and shareholders who own more than 5% of the issued share capital of the Company has any interest in any of these five largest customers of the Group.

SUPPLIERS

The Group's major suppliers are mainly manufacturers of CD and VCD, pressing and printing companies, advertising companies and recording studios. The five largest suppliers to the Group, which have established relationships with the Group during the period from 1994 to 1999, accounted for approximately 17.6% of the Group's total cost of sales for the year ended 31st March, 2000 and the largest supplier to the Group, which is a third party independent of the Directors, chief executive or substantial shareholders of the Company, any of its subsidiaries or their respective Associates, accounted for approximately 5.3% of the Group's total cost of sales for the same year.

None of the Directors, their respective Associates and shareholders who own more than 5% of the issued share capital of the Group has any interest in any of these five largest suppliers of the Group.

COMPETITION

The business of the Group is unique in such a way that it has combined the music production function, event production function and artiste management function within a single entity. Competition within the music entertainment industry is intense and is subject to rapid changes in the music trends and the popularity of artistes.

There are approximately 14 record companies in Hong Kong in the music production and distribution business including five internationally renowned recording companies. Competitors in the event production business include two major musical event producers in Hong Kong. The artiste management business requires both good management skills and personal orientation to the contracted artistes. Most of the artiste management business is carried out by firms that consists of a few experienced artiste agents.

Although the competition of the Group's businesses is intensive, the Directors consider that the Group has established a position in the music entertainment industry through its competitive advantages as set out in the section headed "Competitive strengths" in this prospectus.

Mr. Lee is the major shareholder of People Music. Pursuant to a sub-publishing and administrative agreement dated 1st July, 1998 entered into between People Music and Warner, People Music granted and licensed to Warner certain exclusive rights in 61 compositions in return for royalties. The term of such sub-publishing and administrative agreement is from 1st July, 1998 to 30th June, 2001, such term to be extended to 20th June, 2003 should the net receipts received by Warner up to 30th June, 2001 be less than the amount of the payment in advance made to People Music. Accordingly, the business of People Music may constitute competition with the business of the Group and is therefore being disclosed in accordance with Rule 11.04 of the GEM Listing Rules. The songs under the library of People Music were released before 1996 and those songs are no longer popular hits. The Directors accordingly do not consider that the business of People Music will materially affect the Group's business.

Dr. Jackie Chan, a non-executive Director, is also a non-executive director of STAREASTnet.com Corporation which is an internet media company engaged in the provision of multimedia entertainment and life style information. It produces and distributes original interactive programme through its network of vertically integrated entertainment portals. So far as the Directors are aware, STAREASTnet.com Corporation does not engage in artiste management and event production activities. The Directors do not consider STAREASTnet.com Corporation as a competitor.

The Directors are not aware of any competing business between the Group and Emperor International, its subsidiaries and any of its Associates.

INSURANCE

The Group has obtained several insurance policies from several reputable third party insurers covering (i) fixed assets, including computer equipment, furniture and fixtures located in the Group's premises at Emperor Group Centre, Wanchai, Hong Kong; (ii) business loss due to accidents; and (iii) injury of artistes.

INTELLECTUAL PROPERTY

The Group is the registrant of the domain names of *nicholas-tse.com*, *joey-yung.com*, *eegmusic.com*, *davewangmusic.com*, *easonchanmusic.com*, *musicplusasia.com* and *graceipmusic.com* domain names. In addition, the Group is the registrant of certain trademarks in Hong Kong, Taiwan, the PRC, Singapore, Canada, United Kingdom and New Zealand as shown in the section headed "Intellectual property" in appendix V to this prospectus. The Group has also made trademark applications in Hong Kong, Taiwan, the PRC and Singapore as shown in the section headed "Intellectual property" in appendix V to this prospectus.

CONNECTED TRANSACTIONS

The entire issued share capital of Questrel is legally owned by the Trustee under the A & G Trust, a discretionary trust. The Trustee is a third party independent of the Group. The discretionary objects of the Trust are charitable organisations and a daughter of Mr. Yeung. All the ''appointers'' of the trust are family members of Mr. Yeung. The sole director of Questrel is a company wholly-owned by Mr. Yeung. Under the terms of the trust deed constituting the A & G Trust:

- the Trustee has the sole and absolute discretion to exercise the voting powers at shareholder's meetings of Questrel; and

- the appointors have the power to appoint and remove the Trustee.

Questrel is an Initial Management Shareholder and a controlling shareholder of the Company. As such, Mr. Yeung and Ms. Luk Siu Man, Semon are treated as Initial Management Shareholders and are deemed to be the controlling shareholders of the Company.

Connected persons of the Group include Associates of Questrel, Mr. Yeung and Ms. Luk Siu Man, Semon. Associates of Questrel and Mr. Yeung include:

- Strong Time, a company owned as to 50% of its equity interests by Mr. Yeung Hoi Sing, Sonny and 50% of its equity interests by Mr. Yeung Lik Shing, Michael, both being brothers of Mr. Yeung;

- Emperor Movie, a wholly-owned subsidiary of Questrel;

- Emperor International which is owned as to 50.02% by Questrel;

- Active Pace, Very Sound, Emperor Management, Emperor Advertising, Linkpac, Glorious Twelfth and Record Breakers, all are indirect wholly-owned subsidiaries of Emperor International;

- eDaily Group Limited, a company owned as to 50% by Emperor International and 28% by Emperor Technology Venture Limited in which Emperor International has a 34.9% interest and the securities of which are listed on the Main Board;

- EMG Web Limited, an indirect wholly-owned subsidiary of Questrel; and

- Global Food Culture Group Limited which is owned as to 56.77% by Questrel.

The Group has certain on-going transactions with the Connected Persons pursuant to the following arrangements and/or agreements which will constitute the Non-Exempt Connected Transactions for the Group as defined under Chapter 20 of the GEM Listing Rules and are therefore subject to the reporting requirement set out in Rule 20.34, the announcement requirement set out in Rule 20.35 and the shareholders' approval requirement set out in Rule 20.36 of the GEM Listing Rules. It is considered that strict compliance with the requirements for these Non-exempt Continuing Connected Transactions

would be impractical. As such, the Group has applied to the Stock Exchange for a waiver from the requirements for the Non-exempt Connected Transactions for the period up to 31st March, 2003. The Stock Exchange has indicated that it will grant waivers from the need to comply with the requirements in respect of the Non-Exempt Connected Transactions, subject to the conditions as set out in the section headed "Waivers from compliance with the GEM Listing Rules and Companies Ordinance" in this prospectus. Details of the Non-Exempt Connected Transactions are set out below:

1. **Tenancy agreements**

(i) *In respect of leasing of portions of 27th floor of Emperor Group Centre from Strong Time*

Pursuant to an agreement dated 8th March, 2000 between Strong Time and the Group, Strong Time has leased to the Group a portion of 27th floor of Emperor Group Centre in Hong Kong as the Group's office. The tenancy took effect from 11th October, 1999 and will expire on 19th January, 2003. For the period from 11th October, 1999 to 19th January, 2000, the monthly rental exclusive of rates and management fees was HK$162,430 and for the period from 20th January, 2000 to 19th January, 2003, the monthly rental exclusive of rates, outgoing charges and management fees is HK$89,588. The monthly management fee and air-conditioning charges for the premises are approximately HK$27,119.

Pursuant to an agreement dated 7th June, 2000 between Strong Time and the Group, Strong Time has leased to the Group a portion of 27th floor of Emperor Group Centre in Hong Kong as the Group's accounts office. The tenancy took effect from 8th May, 2000 and will expire on 19th January, 2003. The monthly rental exclusive of rates and management fees for the period from 8th May, 2000 to 19th January, 2003 is HK$15,121. The monthly management fees and air-conditioning charges for the premises are approximately HK$4,578.

As set out in the paragraph headed "Connected transactions waiver" under the section headed "Waivers from compliance with the GEM Listing Rules and Companies Ordinance" in this prospectus, the annual cap is HK$2.0 million. The annual cap is determined on the basis of the monthly rental under the abovementioned agreements and the expected increase in rental for the next three years.

Chesterton Petty Limited, an independent property valuer, is of the view that the existing rental under the tenancy agreements are in line with the market rate as at 30th September, 2000.

(ii) *In respect of leasing of Unit 2001 of Emperor Group Centre and three parking spaces*

Pursuant to a tenancy agreement dated 9th October, 2000 entered into between Linkpac and the Group, Linkpac has leased to the Group Unit 2001, 20th floor of Emperor Group Centre in Hong Kong for two years with effect from 12th September, 2000 for a monthly rent of HK$32,500, exclusive of rates and management fees and all other outgoing charges. The monthly management fee is HK$10,062.40 (subject to increase).

Pursuant to a licence agreement entered into between First Pacific Davies Property Management, an agent of Very Sound, and the Group, the Group has been granted a licence to park at a parking space on B2/F, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong at a monthly fee of HK$3,600 with effect from 28th January, 1999. The licence agreement may be terminated by either party giving to the other party a one-month prior written notice.

Pursuant to a licence agreement dated 19th October, 2000 entered into between Active Pace and the Group, the Group has been granted a licence to park at the car parking spaces nos. 24 and 24A on ground floor, Blocks CD, Kwong Sang Hong Building, 188 Wanchai Road, Wanchai, Hong Kong at a monthly fee of HK$4,800 (subject to increase) with effect from 1st September, 2000. The licence agreement may be terminated by either party giving to the other party a one-month prior written notice.

As set out in the paragraph headed ''Connected transactions waiver'' under the section headed ''Waivers from compliance with the GEM Listing Rules and Companies Ordinance'', the annual cap is HK$0.75 million. The annual cap determined on the basis of the monthly rental under the abovementioned agreements and the expected increase in rental for the next three years.

Chesterton Petty Limited, an independent property valuer, is of the view that the existing rental under the tenancy agreement and the two licence agreements are in line with the market rate as at 30th September, 2000.

2. **Advertising agency agreement**

Pursuant to the agency agreement dated 19th October, 2000 entered into between Emperor Advertising and the Group, the Group has appointed Emperor Advertising as the advertising agent in the planning and execution of its advertising and promotional activities with effect from 1st August, 2000 for a term of two years and renewable for further 12 months at the option of either party. Emperor Advertising mainly provides to the Group three types of services: (i) media advertising services; (ii) promotion services; and (iii) creative services:

(i) With respect to the media advertising service, Emperor Advertising is responsible for arranging and negotiating with press media on behalf of the Group in relation to the placing advertisements in newspaper and magazines. The Group will benefit from all special discounts provided by the relevant newspaper or magazine including volume discount and agency commission. Emperor Advertising will receive the agency commission rate of 7.5%, which is calculated on the basis of the net cost for each advertisement.

(ii) With respect to the promotion services, Emperor Advertising is responsible for organising promotion functions and events and will charge a fixed sum for each project based on the actual hours spent on the project at an hourly rate of HK$750.00 per manpower.

(iii) With respect to the creative services, Emperor Advertising is responsible for creating idea in commercials, press, radio and television copywriting work, and art layout and design. Emperor Advertising will be charged based on the actual time incurred to perform the work and the hourly rate is HK$750.00 per manpower.

As set out in the paragraph headed "Connected transactions waiver" under the section headed "Waivers from compliance with the GEM Listing Rules and Companies Ordinance", the annual cap is HK$1.8 million. The annual cap is determined on the basis of the estimated usage of advertising and promotional services by the Group over the next three years ending 31st March, 2003 and the terms of the abovementioned agency agreement.

3. **Back office support services**

Pursuant to a service agreement dated 19th October, 2000 between Emperor Management and the Group, the Group has engaged Emperor Management to provide internal auditing, accounting, human resources and administrative services to the Group with effect from 1st October, 2000 for a term of two years and renewable for a further 12 months at the option of either party. The Group will be charged quarterly based on the actual hours spent at the maximum rate of approximately HK$400 per hour incurred by Emperor Management in the provision of their services.

As set out in the paragraph headed "Connected transactions waiver" under the section headed "Waivers from compliance with the GEM Listing Rules and Companies Ordinance", the annual cap is HK$1.2 million. The annual cap is determined on the basis of the estimated usage of back office support services over the next three years and of the terms of the abovementioned service agreement.

4. **Professional services**

Pursuant to a service agreement dated 19th October, 2000 between Emperor Management and the Group, the Group has appointed Emperor Management to provide information technology, legal and secretarial services to the Group with effect from 1st October, 2000 for two years and renewable for a further twelve months at the option of either party. For information technology services, the Group will be charged quarterly on the actual hours incurred for the work at the rate of approximately HK$380 per hour. For legal and secretarial services, the Group will be charged on a job-by-job basis.

As set out in the paragraph headed "Connected transactions waiver" under the section headed "Waivers from compliance with the GEM Listing Rules and Companies Ordinance", the annual cap is HK$1.3 million. The annual cap is determined on the basis of the estimated usage of professional services over the next three years ending 31st March, 2003 and the terms of the abovementioned service agreement.

5. **Website development agreements**

Pursuant to an agreement dated 19th October, 2000 entered into between eDaily and the Group, the Group has engaged eDaily for the designing, building and hosting of websites for the Group and its artistes with entertainment, promotional and e-commerce features with effect from 1st July, 2000 for a term of two years and renewable at the option of either party. eDaily will charge the Group for its services on a job-by-job basis with a monthly website hosting fee of HK$15,000 per website developed for the Group by eDaily. Pursuant to the above mentioned agreement, eDaily will be charging from HK$40,000 to HK$250,000 for developing websites depending on the nature, complexity, and content of the websites.

As set out in the paragraph headed "Connected transactions waiver" under the section headed "Waivers from compliance with the GEM Listing Rules and Companies Ordinance", the annual cap is HK$2.7 million. The annual cap is determined on the basis of the estimated usage of such service over the next three years ending 31st March, 2003 and on the terms of the abovementioned agreement.

6. **Investments in eFoodland and eStardream**

Pursuant to a shareholders' deed dated 5th January, 2000 entered into between eDaily, Global Food, Emperor Movie and EEG Limited, the parties to the deed agreed to invest in eFoodland, a company set up for operating a multi-lingual website under the domain name *www.efoodland.cc* which contains and will contain information on Chinese food culture, Chinese cuisine, recipes, chefs, restaurants and dining guide. eFoodland is currently owned as to 30% of its issued share capital by eDaily, 40% by Global Food, 10% by EMG Web Limited and 20% by the Group. The initial investment for eFoodland is estimated to be HK$5 million which will be shared among its shareholders according to their respective shareholdings in eFoodland.

Pursuant to a shareholders' deed dated 5th January, 2000 entered into between eDaily, Emperor Movie and EEG Limited, the parties to the deed agreed to invest in eStardream, a company set up for operating a multi-lingual website under the domain name *www.estardream.cc* containing a database on entertainers and practitioners in the entertainment industry and providing a forum for talented people who are interested in the industry to introduce themselves to entertainers and practitioners. eStardream is currently owned as to 40% by eDaily, 10% by EMG Web Limited and 50% by the Group. The initial investment for eStardream is estimated to be HK$5 million which will be shared among its shareholders according to their respective shareholdings in eStardream.

As set out in the paragraph headed "Connected transactions waiver" under the section headed "Waivers from compliance with the GEM Listing Rules and Companies Ordinance" in this prospectus, the annual cap is HK$1.5 million, which is determined on the basis of the proportional amount of the initial investment under the abovementioned shareholders' deeds.

STRATEGIES

The Director's strategies to achieve the Group's objective of becoming a leading music entertainment and artiste management group in the principal areas of (i) music production and distribution; (ii) artiste management; and (iii) event production in the Greater China region with primary focus in Hong Kong include:

- **Enhancing its artiste base through recruiting and training new artistes, and contracting additional established artistes in the industry**

  In order to cater for the different taste and music style of different audiences and viewers the Group will enhance its artiste base through recruiting and training new artistes and contracting additional established artistes in the industry. The Directors believe that this will contribute to future growth of the Group.

- **Expanding into the Taiwan and Mainland China markets**

  The Group aims to expand into the Taiwan and Mainland China markets as the Directors consider that the music entertainment and artiste management markets in these two regions to be of great potential. The Group will adopt a similar business model in Taiwan and Mainland China as in Hong Kong. The setting up of an office in Taiwan is the first step of such expansion plan.

- **Licensing with additional international record companies**

  In order to meet the diverse and ever-changing customers' taste, the Group will continue to seek opportunities to enter into licensing arrangements with other international record companies.

- **Strengthening the Group's songs and lyrics library**

  The Group intends to expand its songs and lyrics library through acquisitions and by contracting songs composers and lyrics authors. As such, the licence income of the Group can be enhanced. The library also provides the Group with a steady source of supply of songs for its music production business.

BASES AND ASSUMPTIONS

The following summarises the assumptions in relation to the business plans and the estimated application of the net proceeds of the Share Offer for the current financial year ending 31st March, 2001 and the two financial years ending 31st March, 2003:

1. there will be no material changes in existing government policies, economic, fiscal or legal conditions (including changes in legislation or regulations or rules) in the respective countries or industry in which the Group operates;

2. there will be no significant fluctuations in currency exchange rates, interest rates and tariffs and duties from those presently prevailing;

3. there will be no material changes in the bases or rates of taxation applicable to the Group in the respective jurisdictions in which it operates;

4. suitable personnel can be recruited and retained by the Group; and

5. there will be no change in the funding requirement for each of the near term development strategies described herein from the amount as currently estimated by the Group's management.

Reference is made to the risk factors set out in the section headed "Risk factors" in this prospectus, the occurrence of any of which may delay or otherwise affect the attainment by the Group of any of its business objectives.

IMPLEMENTATION SCHEDULE

The Directors intend to adopt the steps set out below with respect to its business, within the time periods set out below. However, it should be noted that the Directors believe that the music entertainment industry is dynamic and is difficult to predict. The intention of the Directors set out below therefore only reflect their present intention. The Directors will endeavour to anticipate changes in the music entertainment industry and to take steps to remain flexible and versatile in order that the Group may stay ahead of or react to such changes. Based on the business plan of the Group and the current state of the music and entertainment industry, the Directors expect to implement the following:

In respect of the period from the Latest Practicable Date to 31st March, 2001

Strategic development/ overseas expansion	**Music production and distribution**	**Artiste management**	**Event production**
Recruit not less than two additional staff for the music production and distribution function and the artiste management function.	1. Release not less than eight albums for the Group's own artistes in Hong Kong. 2. Enter into licence agreement with not less than one international record company.	1. Recruit not less than one new artiste in Hong Kong. 2. Arrange Nicholas Tse to perform in a concert to be held in April 2001 in Sydney, Australia organised by an independent third party.	Commence the preparation work for the Dave Wang in Concert 2001 to be held in April 2001.

STATEMENT OF BUSINESS OBJECTIVES

In respect of the period from 1st April, 2001 to 30th September, 2001

Strategic development/ overseas expansion

1. Recruit not less than two additional staff for the music production and distribution function, the artiste management function and the finance and administration function.

2. Expand the function of its Taiwan office to include artiste management function; to establish the communication network with the local media operators, advertising agencies, film producers and music producers; to promote its own artistes in Taiwan; and to recruit a local artiste management team for expansion of the Group's business in Taiwan.

3. Commence preparation of establishing the Group's liaison office in Shanghai, the PRC.

Music production and distribution

1. Release not less than 15 albums for the Group's own artistes in Hong Kong.

2. Enter into licence agreement with not less than one international record company.

Artiste management

1. Recruit not less than two new artistes in Hong Kong.

2. Nicholas Tse to perform in a concert to be held in April 2001 in Sydney, Australia organised by an independent third party.

Event production

1. Organise the Dave Wang in Concert 2001 at Hong Kong Coliseum Arena in April 2001.

2. Solely or jointly organise not less than three concerts in Hong Kong.

STATEMENT OF BUSINESS OBJECTIVES

In respect of the period from 1st October, 2001 to 31st March, 2002

Strategic development/ overseas expansion	**Music production and distribution**	**Artiste management**	**Event production**
1. Liaison office in Shanghai to commence operation. 2. Expand the licensing and artiste management businesses in the PRC.	1. Release not less than 15 albums for the Group's own artistes in Hong Kong. 2. Enter into licence agreement with not less than one international record company.	Recruit not less than two new artistes in Hong Kong and not less than two new artistes in the PRC and/or Taiwan.	Solely or jointly organise not less than three concerts in Hong Kong.

In respect of the period from 1st April, 2002 to 30th September, 2002

Strategic development/ overseas expansion	**Music production and distribution**	**Artiste management**	**Event production**
Further expand the Group's Taiwan office to include licensing function.	1. Release not less than 18 albums for the Group's own artistes in Hong Kong. 2. Enter into licence agreement with not less than one international record company.	1. Recruit not less than two new artistes in Hong Kong. 2. Recruit not less than two artistes in Asia including Taiwan and the PRC	Solely and jointly organise not less than three concerts in Hong Kong.

In respect of the period from 1st October, 2002 to 31st March, 2003

Strategic development/ overseas expansion	**Music production and distribution**	**Artiste management**	**Event production**
Expand the Group's Shanghai office to include licensing function.	1. Release not less than 20 albums for the Group's own artistes in Hong Kong. 2. Enter into licence agreement with not less than one international record company.	1. Recruit not less than two new artistes in Hong Kong and the PRC. 2. Recruit not less than two artistes in Asia.	Solely and jointly organise not less than three concerts in Hong Kong.

WORKING CAPITAL REQUIREMENT

The Directors believe that the additional working capital from the net proceeds of the Share Offer will be utilised for the operations of the Group's businesses from the Latest Practicable Date to 31st March, 2003. The Directors also believe that with such additional working capital, the Group will have sufficient working capital to fund its business operations for such period as set out in the paragraph headed "Implementation schedule" in this prospectus.

The net proceeds from the Share Offer, after deducting related expenses, are estimated to be approximately HK$88 million (assuming that the Over-allotment Option is not exercised) based on a maximum Issue Price of HK$1.08. If the Over-allotment Option is exercised in full, the net proceeds (based on the above Issue Price) will increase to approximately HK$103 million. The Directors presently intend to apply such net proceeds as follows:

- approximately HK$6 million will be used to further the Group's plan of establishing its offices in Taiwan and Mainland China during the period from 1st April, 2001 to 30th September, 2001;

- approximately HK$60 million will be used in the Group's music production and distribution business. It is expected that approximately HK$5 million, HK$10 million, HK$12 million, HK$15 million and HK$18 million will be utilised for the periods from the Latest Practicable Date to 31st March, 2001, from 1st April, 2001 to 30th September, 2001, from 1st October, 2001 to 31st March, 2002, from 1st April, 2002 to 30th September, 2002 and from 1st October, 2002 to 31st March, 2003 respectively;

- approximately HK$11 million will be used in the Group's event production business. It is expected that approximately HK$1 million, HK$3 million, HK$3 million, HK$2 million and HK$2 million will be utilised for the periods from the Latest Practicable Date to 31st March, 2001, from 1st April, 2001 to 30th September, 2001, from 1st October, 2001 to 31st March, 2002, from 1st April, 2002 to 30th September, 2002 and from 1st October, 2002 to 31st March, 2003 respectively;

- approximately HK$4 million will be used to further invest in eFoodland and eStardream. It is expected that approximately HK$1.00 million, HK$0.75 million, HK$0.75 million, HK$0.75 million and HK$0.75 million will be utilised for the periods from the Latest Practicable Date to 31st March, 2001, from 1st April, 2001 to 30th September, 2001, from 1st October, 2001 to 31st March, 2002, from 1st April, 2002 to 30th September, 2002 and from 1st October, 2002 to 31st March, 2003 respectively;

- the balance of approximately HK$7 million will be used as general working capital of the Group; and

- in the event that the Over-allotment Option is exercised in full, of the additional net proceeds of approximately HK$15 million, approximately HK$12 million will be used in the music production and distribution business, approximately HK$2 million will be used in the event production business and approximately HK$1 million will be used as general working capital of the Group.

To the extent that the net proceeds of the Share Offer are not immediately required for the above purposes, it is the present intention of the Directors that such proceeds should be placed on short-term deposit with banks or financial institutions in Hong Kong. In the event that there are material changes or modifications to the use of proceeds as described above, an announcement will be made by the Company as and when appropriate.

In the event the Issue Price is less than HK$1.08 resulted in the net proceeds from the Share Offer be less than HK$88 million, the net proceeds applied for general working capital of the Group stated above shall be reduced accordingly.

YEAR 2000 COMPLIANCE

The Group has reviewed all its computer hardware and application software before 1st January, 2000 to ensure that they were year 2000 compliant. The Directors consider that they have taken all necessary steps to ensure the computer hardware and software application of the Group are year 2000 compliant but are aware that year 2000 compliance issues, many of which are outside the Group's control, may continue to pose a threat to its business in the year 2000 and beyond. However, as at the Latest Practicable Date, the Group has not experienced any problems with its computer hardware and application software that relate to year 2000 compliance issues.

DIRECTORS

Ms. LUK Siu Man, Semon*, aged 44, Chairperson, graduated from the University of Toronto with a bachelor degree in Commerce. Ms. Luk worked in the banking industry for almost 10 years. Ms. Luk, the spouse of Mr. Yeung, is deemed to be interested in 139,370,371 Shares held by Questrel. She is also the Chairperson of Emperor International and Emperor (China Concept) Investments Limited, the securities of both of which are listed on the Main Board. She joined the Group in November 2000.

Mr. LEE Tsun, Frankie, aged 40, Chief Executive Officer, is responsible for the corporate and business strategies, and operations of the Group. Prior to joining the Group in January 1999, Mr. Lee was the managing director of Warner Music HK Ltd. Mr. Lee has over 20 years of experience in music production, concert organisation, promotion and management of renowned artistes. Mr. Lee worked for Capital Artists Ltd. for seven years. During this period, he has been involved in the artiste management, event production and, concert tours. He worked as a disc jockey and programme producer for CRHK during the early 1980s.

Mr. WONG Chi Fai, aged 44, is responsible for the overall corporate and business planning of the Group. He has over 20 years' experience in finance and management spanning a diverse range of businesses from manufacturing to property investment and development. He is an associate of the Hong Kong Society of Accountants and a fellow of the Association of Certified Accountants. He is also the joint managing director of Emperor International and a director of Emperor (China Concept) Investments Limited, Emperor Technology Venture Limited and Global Food Culture Group Limited, the shares of all of which are listed on the Main Board. He first joined the Group in January 1994.

Ms. FAN Man Seung, Vanessa, aged 37, is a solicitor qualified in Hong Kong and holds a master degree in Business Administration. Ms. Fan is responsible for the overall corporate and business planning of the Group. She is also the joint managing director of Emperor International, and a director of Emperor (China Concept) Investments Limited, Emperor Technology Venture Limited and Global Food Culture Group Limited, the shares of all of which are listed on the Main Board. She first joined the Group in January 1994.

Mr. CHENG Yiu Keung, aged 46, is the managing director of the record division under the music production and distribution business of the Group. Mr. Cheng is responsible for overseeing the operation of the record division which includes formulating strategic plan for record releases and participating in the production of the records. Prior to joining the Group in May 2000, Mr. Cheng worked as the marketing director of Warner Music HK Ltd. from 1980 to 1995 and as deputy managing director of Go East Entertainment Co. Ltd. from 1995 to early 2000.

Dr. CHAN Kong Sang, Jackie*, MBE, SBS, aged 46, is an international renowned actor and entertainer. He has been awarded fellowship by the Hong Kong Academy for Performing Arts. He was chosen as one of the Ten Outstanding Young Persons of Hong Kong in 1986 and The Outstanding Young Persons of the World by Jaycees International in 1988. In 1992, the Taiwan Government honoured him as one of the Five Most Outstanding Young Chinese in the World. He was made a Member of the Most Excellent Order of the British Empire (MBE) in 1989 and was conferred the Honorary Doctorate of Social Science by the Hong Kong Baptist University in 1996. He was awarded the Silver Bauhinia Star by the Government of Hong Kong Special Administrative Region in 1999. He is the Chairman of Global Food Culture Group Limited and also an executive director of Star East Holdings Limited, the securities of which are listed on the Main Board and a non-executive director of STAREASTnet.com Corporation, the shares of all of which are listed on GEM. He joined the Group in November 2000.

Mr. WONG Ching Yue**, aged 52, is a senior counsel, barrister-at-law, practising in Hong Kong since 1975. He was also an independent non-executive director of Emperor Technology Venture Limited from March 1998 to 2nd December, 2000. He joined the Group in November 2000.

Mr. TSO Hon Sai, Bosco**, aged 36, is a solicitor practising in Hong Kong since 1990. He is a partner of Bosco Tso & Partners. He graduated from King's College London in the United Kingdom in 1987. He joined the Group in November 2000.

** non-executive Director*

*** Independent non-executive Director*

SENIOR MANAGEMENT

Mr. HO Chung Lap, Sam, aged 49, is the senior vice president - international affairs under the music production and distribution business of the Group and is responsible for overseeing its Taiwan operations and the development of the international licensing business. Mr. Ho holds a bachelor degree in Communication from the Baptist University, Hong Kong. Prior to joining the Group in June 1999, Mr. Ho has been a vice president of Paramount Publishing Co. Ltd. and of Rock Record Co. Ltd. Mr. Ho has over 28 years of experience in the area of television/radio broadcast, sales, marketing and promotion of audio and video software, management and recruitment of music talents, and the establishment and management of regional offices for major international record companies.

Mr. KIANG Kong Sang, Tony, aged 46, is the artiste and repertoire director under the music production and distribution business of the Group and is responsible for overseeing the music production work of the Group. Prior to joining the Group in January 2000, Mr. Kiang was the production manager of Capital Artists Ltd. and artiste and repertoire manager of Music Impact Ltd. Mr. Kiang has over 12 years of experience in the area of music production.

Ms. KAN Chin Chin, Liza, aged 32, is the marketing director of the record division under the ***MUSICPLUS*** label and is responsible for overseeing the marketing operation of the ***MUSICPLUS*** label of the Group. Prior to joining the Group in August 2000, Ms. Kan was the label chief of Warner Music HK Ltd. and deputy general manager of Universal Music Ltd. Ms. Kan has over 8 years of experience in the area of sales, marketing and promotion of records and singing artistes.

Ms. FOK Man Lei, Mani, aged 28, is a director of the artiste management division of the Group and is responsible for overseeing the operations of the artiste management division of the Group and all aspects of the engagement and promotion activities and providing guidance to certain artistes on personal and career developments. She has seven years of experience in the artiste management industry. Prior to joining the Group in 1993, Ms. Fok worked in the modeling and advertising industries. Ms. Fok possesses a detailed knowledge of and has a successful track record in the promotion of new artistes in the industry.

Ms. PANG Suk Ha, Polly, aged 40, is a director of the artiste management division of the Group and is responsible for overseeing the operations of the artiste management division of the Group and all aspects of the engagement and promotion activities and providing guidance to certain artistes on personal and career developments. She has over 15 years of experience in the artiste management industry. Prior to joining the Group in November 2000. Ms. Pang worked for Warner Music HK Ltd. as controller of the artiste development and public affairs division.

Mr. LAM Wai Hon, aged 33, is the general manager of the records division under the ***EEG*** label and is responsible for overseeing the domestic repertoire of the ***EEG*** label of the Group. Prior to joining the Group in September 1999, Mr. Lam worked for Warner Music HK Ltd. and EMI Music. He has 13 years of experience in promotion and marketing in the records industry.

COMPANY SECRETARY

Ms. MOK Fung Lin, Ivy, aged 35, one of the company secretaries of the Company, is a solicitor qualified in Hong Kong and the United Kingdom, and holds a master degree in Business Administration. She is an executive director of Emperor International and of Emperor (China Concept) Investments Limited, the shares of both of which are listed on the Main Board.

QUALIFIED ACCOUNTANT

Ms. LAU Wei Fan, aged 30, holds a bachelor degree in Accountancy and is a certified practising accountant in Australia and an associate member of the Hong Kong Society of Accountants. She has considerable experience in financial management. She has about five years' of audit experience with an international accounting firm. She is responsible for overseeing the financial reporting process and internal control procedures of the Group.

AUDIT COMMITTEE

The Group established an audit committee on 30th November, 2000 with written terms of reference based on the guidelines published by the Hong Kong Society of Accountants. The primary duties of the audit committee are to review the financial reporting process and internal control procedures of the Group. The audit committee has two members namely, Mr. Wong Ching Yue and Mr. Tso Hon Sai, Bosco, the two independent non-executive Directors.

STAFF

As at the Latest Practicable Date, the Group had 76 full-time employees. A breakdown of employees by function is as follows:

Function	Number of full-time employees
Corporate planning and strategy	2
Music production and distribution	38
Artist management	13
Event production	3
Finance and administration	20
	76

SHARE OPTION SCHEMES

Pursuant to resolutions in writing passed by the sole shareholder of the Company on 30th November, 2000, the Company has adopted the Pre-IPO Share Option Scheme and conditionally approved the Employee Share Option Scheme, the principal terms of which are set out in the sections headed "Pre-IPO Share Option Scheme" and "Employee Share Option Scheme" respectively in appendix V to this prospectus.

The Share Option Schemes are conditional upon the GEM Listing Committee granting approval of the Share Option Schemes and any options which may be granted thereunder and the listing of and permission to deal in any Shares which may be issued pursuant to the exercise of options granted under the Share Option Schemes. Application will be made to the GEM Listing Committee for the approval of the Share Option Schemes, the granting of the options under the Share Option Schemes and the listing of and permission to deal in the Shares which may be issued pursuant to the exercise of the options granted under the Share Option Schemes.

As at the Latest Practicable Date, the Company has granted options to Mr. Lee, to subscribe for a total of 9,259,259 Shares (being approximately 3.86% of the enlarged issued share capital of the Company immediately following completion of the Capitalisation Issue, the Share Offer and the Pre-IPO Issue) on the terms set out under the paragraph headed "Outstanding options under the Pre-IPO Share Option Scheme" in the section headed "Pre-IPO Share Option Scheme" in appendix V to this prospectus.

As at the Latest Practicable Date, save as disclosed in this prospectus, no option has been granted or agreed to be granted by the Company under the Share Option Schemes.

PRE-IPO ISSUE

At a meeting of the Directors held on 30th November, 2000, the Directors have conditionally approved the Pre-IPO Issue whereby Mr. Lee will be allotted and issued 4,629,629 Shares (being approximately 1.93% of the issued share capital of the Company after completion of the Capitalisation Issue, the Pre-IPO Issue and the Share Offer assuming the Over-allotment Option is not exercised) at the subscription price of HK$0.01 per Share to recognise the contribution of Mr. Lee to the Group. Completion of the Pre-IPO Issue is subject to the same conditions as the Share Offer as set out in the paragraph headed ''Conditions of the Share Offer'' in the section headed ''Structure and conditions of the Share Offer'' in this prospectus.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, immediately after the completion of the Capitalisation Issue, the Share Offer and the Pre-IPO Issue (assuming the Over-allotment Option is not exercised), the only persons directly or indirectly holding interests in 10% or more of the Shares for the purposes of the SDI Ordinance will be as follows:

Name	Number of Shares	Approximate percentage of holding
Questrel	139,370,371	58.07
Mr. Yeung	139,370,371	58.07
Ms. Luk Siu Man, Semon	139,370,371	58.07

Note:

Questrel is a company controlled by Mr. Yeung. Accordingly, Mr. Yeung is deemed to be interested in 139,370,371 Shares held by Questrel. By virtue of the above interests of Mr. Yeung, Ms. Luk Siu Man, Semon is also deemed to be interested in the above 139,370,371 Shares held by Questrel. Details of the relationship between Questrel and Mr. Yeung are set out in the paragraph headed "Connected transactions" under the section headed "Business" in this prospectus.

INITIAL MANAGEMENT SHAREHOLDERS

Immediately after the completion of the Capitalisation Issue, the Share Offer and the Pre-IPO Issue, Questrel will be interested in 139,370,371 Shares, representing approximately 58.07% of the enlarged issued share capital of the Company (assuming the Over-allotment Option is not exercised). Mr. Lee will own 4,629,629 Shares, representing approximately 1.93% of the enlarged issued share capital of the Company (assuming the Over-allotment Option is not exercised). As such, Mr. Yeung, Ms. Luk Siu Man, Semon and Questrel are considered to be controlling shareholders of the Company while Mr. Yeung, Ms. Luk Siu Man, Semon, Questrel and Mr. Lee are considered to be the initial management shareholders (as defined under the GEM Listing Rules) of the Company.

Under Rule 13.16 of the GEM Listing Rules, the Company shall procure that each Initial Management Shareholder:

1. places in escrow, with an escrow agent acceptable to the Stock Exchange, its Relevant Securities for a period of two years from the Listing Date, on terms acceptable to the Stock Exchange; and

2. undertakes to the Company and the Stock Exchange that, for a period of two years from the Listing Date, it will not, save as provided in Rule 13.17 of the GEM Listing Rules, dispose of (or enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of its direct or indirect interest in the Relevant Securities.

A waiver has been obtained from the Stock Exchange with respect to the lock-up of the Relevant Securities, details of which are set out in the paragraph headed "Lock-up waiver" under the section headed "Waivers from compliance with the GEM Listing Rules and Companies Ordinance" in this prospectus.

UNDERTAKINGS GIVEN BY THE INITIAL MANAGEMENT SHAREHOLDERS

Non-disposal undertakings and escrow arrangement

Each of the Initial Management Shareholders has undertaken with the Stock Exchange, the Company, BNP Paribas Peregrine Securities (acting on behalf of the Underwriters) and BNP Paribas Peregrine Capital that (i) for the Six Month Period, it will not, save as provided in Rule 13.17 of the GEM Listing Rules, dispose of (or enter into any agreement to dispose of) nor permit the registered holder to dispose of (or enter into any agreement to dispose of) any of its direct or indirect interests in the Relevant Securities held by it immediately following completion of the Share Offer. Each of the Controlling Shareholders has further undertaken to the Company, BNP Paribas Peregrine Securities (acting on behalf of the Underwriters), BNP Paribas Peregrine Capital and the Stock Exchange that during the Second Six Month Period, it will not, save as provided in Rule 13.17 of the GEM Listing Rules, dispose of (or enter into any agreement to dispose of) any of its interests in the Relevant Securities to the extent that they will cease to have control of not less than 35% of the voting powers at general meetings of the Company.

Each of the Initial Management Shareholders will place in escrow, with an escrow agent approved by BNP Paribas Peregrine Capital and acceptable to the Stock Exchange, its Relevant Securities for the Six Month Period and the Controlling Shareholders will continue to place its Relevant Securities in escrow during the Second Six Month Period such that the Controlling Shareholders will together maintain control of not less than 35% of the voting powers at general meeting of the Company.

The appointors for the A & G Trust, the discretionary trust under which the shares in Questrel are held, namely, Ms. Luk Siu Man, Semon, Ms. Cindy Yeung, Ms. Daisy Yeung, Ms. Yeung Sze Sze, Patsy, Mr. Gilbert Yeung and Mr. Yeung Ching Loong, Alexander, have undertaken with the Sponsor and the Stock Exchange that they will procure that, during the Six Month Period and the Second Six Month Period, the Trustee's shares in Questrel will not be disposed of to third parties or distributed to the discretionary objects under the A & G Trust (the trustee of A & G Trust legally holds the entire shares of Questrel), and in the event that the Trustee gives written notice to the appointors referred to above regarding its proposal to dispose of shares in Questrel to third parties or otherwise distribute such shares to the discretionary objects, the appointors will remove the Trustee and appoint a new trustee so that the proposed disposal or distribution could not proceed. The appointors will also procure that no new appointor would be appointed during the Six Month Period and the Second Six Month Period, other than family members of Mr. Yeung.

Other undertakings

The Initial Management Shareholders and the Controlling Shareholders have further undertaken to the Company, BNP Paribas Peregrine Securities (acting on behalf of the Underwriters), BNP Paribas Peregrine Capital and the Stock Exchange for the periods of (i) the Six Month Period and (ii) the Six Month Period and the Second Six Month Period, respectively that (a) when it pledges or charges any interests in the Relevant Securities, it shall immediately inform the Company, BNP Paribas Peregrine Securities (acting on behalf of the Underwriters) and BNP Paribas Peregrine Capital in writing of such pledge or charge together with the number of such securities so pledged or charged, the purpose for which the pledge or charge is made and other relevant details; and that (b) when it or he receives indications, either verbal or written, from any pledgee or chargee that the interest of the Relevant Securities pledged or charged by it will be or has been disposed of, it will immediately inform the Company, BNP Paribas Peregrine Securities (acting on behalf of the Underwriters) and BNP Paribas Peregrine Capital in writing of such indication for disposal.

SIGNIFICANT SHAREHOLDERS

So far as the Directors are aware, immediately after the completion of the Capitalisation Issue, the Share Offer and the Pre-IPO Issue (assuming the Over-allotment Option is not exercised), apart from the substantial shareholders and the Initial Management Shareholders disclosed above, there are no other persons who will be directly or indirectly interested in 5% or more of the Shares then in issue.

The authorised and issued share capital of the Company are as follows:

Authorised share capital:		*HK$*
10,000,000,000	Shares	100,000,000

Shares in issue and to be issued:

10,000,001	Shares in issue as at the date of this prospectus	100,000
129,370,370	Shares to be issued pursuant to the Capitalisation Issue	1,293,704
4,629,629	Shares to be issued pursuant to the Pre-IPO Issue	46,296
76,800,000	Shares to be issued under the Placing	768,000
19,200,000	Shares to be issued under the Public Offer	192,000
240,000,000	Shares	2,400,000

Pursuant to Rule 11.23(1) of the GEM Listing Rules, at the time of listing and at all times thereafter, the Company must maintain the "minimum prescribed percentage" of 20% of the issued share capital of the Company in the hands of the public.

Notes:

1. **Assumptions**

This table assumes that the Pre-IPO Issue, the Share Offer and the Capitalisation Issue become unconditional.

It takes no account of any new Shares which may be issued upon the exercise of the Over-allotment Option or of any options granted or which may be granted under the Share Option Schemes (see appendix V to this prospectus) or under the general mandate given to the Directors for the allotment and issue of Shares (see appendix V to this prospectus) or which may be repurchased by the Company pursuant to the general mandate given to the Directors for the repurchase of Shares (see appendix V to this prospectus).

2. **Ranking**

The Offer Shares will rank pari passu with all Shares now in issue or to be issued as mentioned in this prospectus save for the entitlement under the Capitalisation Issue, and will qualify for all dividends or other distributions declared, made or paid on the Shares after the date of this prospectus.

3. **Share Option Schemes**

The Company has put in place the Pre-IPO Share Option Scheme and, as at the Latest Practicable Date, has issued options thereunder to Mr. Lee, to subscribe for a total of 9,259,259 Shares. A summary of the principal terms of the Pre-IPO Share Option Scheme and particulars of the options granted are set out in the section headed "Pre-IPO Share Option Scheme" in appendix V to this prospectus. No further options will be granted under the Pre-IPO Share Option Scheme after the listing of the Shares on GEM. On full exercise of all options granted under the Pre-IPO Share Option Scheme, 9,259,259 Shares will be issued to Mr. Lee, representing approximately 3.86% of the issued Shares immediately after completion of the Capitalisation Issue, the Share Offer and the Pre-IPO Issue (but excluding the exercise of options granted under the Share Option Schemes and the issue of Shares upon any exercise of the Over-allotment Option).

The Company has conditionally adopted the Employee Share Option Scheme, a summary of the principal terms of which is set out in the section headed "Employee Share Option Scheme" in appendix V to this prospectus. Under the Employee Share Option Scheme, full-time employees (including executive Directors) of the Group may be granted options which entitle them to subscribe for Shares representing up to a maximum, when aggregated with any securities subject to any other share option scheme(s) of the Company including the options granted under the Pre-IPO Share Option Scheme referred to above, of 30% of the issued share capital of the Company from time to time (excluding Shares which may be issued upon the exercise of options granted under the Share Option Schemes, and any other share option scheme(s) of the Company).

4. **General mandate to issue Shares**

Subject to the Share Offer becoming unconditional, the Directors have been granted a general unconditional mandate to allot and issue and deal with unissued Shares with an aggregate nominal value of not more than:

(a) 20% of the aggregate nominal value of the share capital of the Company in issue immediately following the completion of the Share Offer, the Capitalisation Issue and the Pre-IPO Issue; and

(b) the aggregate nominal value of the share capital of the Company repurchased by the Company (if any).

This mandate does not cover the Shares to be allotted, issued and dealt with under, among other things, a rights issue.

The mandate will expire:

- at the conclusion of the next annual general meeting of the Company; or
- at the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the Bye-laws to be held; or
- when varied or revoked by an ordinary resolution of shareholders of the Company in general meeting,

whichever is the earliest.

For further details of this general mandate, see the paragraph headed "Written resolutions of the sole shareholder of the Company passed on 30th November, 2000" in the section headed "Further information about the Company and its subsidiaries" in appendix V to this prospectus.

5. **General mandate to repurchase Shares**

Subject to the Share Offer becoming unconditional, the Directors have been granted a general unconditional mandate to exercise all the powers of the Company to repurchase Shares with a total nominal value of not more than 10% of the aggregate nominal value of the share capital of the Company in issue immediately following the completion of the Share Offer, the Capitalisation Issue and the Pre-IPO Issue.

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognised by the Securities and Futures Commission and the Stock Exchange for this purpose), and which are in accordance with all applicable laws and the requirements of the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in the paragraph headed "Repurchase by the Company of its own securities" in the section headed "Further information about the Company and its subsidiaries" in appendix V to this prospectus.

The mandate will expire:

- at the conclusion of the next annual general meeting of the Company;
- at the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the Bye-laws to be held; or
- when varied or revoked by an ordinary resolution of shareholders of the Company in general meeting;

whichever is the earliest.

For further details of this general mandate, see the paragraph headed "Written resolutions of the sole shareholder of the Company passed on 30th November, 2000" in the section headed "Further information about the Company and its subsidiaries" in appendix V to this prospectus.

INDEBTEDNESS

Borrowings

As at the close of business on 31st October, 2000, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this prospectus, the Group had an unsecured bank overdraft of approximately HK$1,239,000 and an unsecured loan from Questrel of approximately HK$117,663,000. In addition, the Group had outstanding at that date obligations under finance leases and hire purchase contracts of approximately HK$85,000.

On 30th November, 2000, in preparation of the listing of the Shares on GEM, the companies comprising the Group underwent the Reorganisation to rationalise the group structure. As a result of the Reorganisation, the Company became the holding company of the Group on 30th November, 2000. The details of the Reorganisation and other changes, including the capitalisation of an amount of approximately HK$91,163,000 due to Questrel, are set out in the paragraphs headed "Changes in the share capital of the Company" and "Group reorganisation", in the section headed "Further information about the Company and its subsidiaries" in appendix V to this prospectus.

Foreign currency amounts for the purpose of the calculations in respect of the indebtedness have been translated into Hong Kong dollars at the rates of exchange prevailing at the close of business on 31st October, 2000.

Contingent liabilities

At 31st October, 2000, the Group had no material contingent liabilities.

Disclaimer

Save as aforesaid or as otherwise disclosed herein and apart from intra-group liabilities, the Group did not have outstanding at the close of business on 31st October, 2000, any loan capital issued or outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, finance lease commitments or any guarantees or other material contingent liabilities.

No material adverse change

Save as disclosed above, the Directors have confirmed that there has not been any material change in the indebtedness, commitments and contingent liabilities of the Group since 31st October, 2000.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 31st October, 2000, the Group had net current assets of approximately HK$12.3 million. The current assets comprised bank balances and cash of approximately HK$8.0 million, trade receivables of approximately HK$15.0 million, prepayments and other receivables of approximately HK$30.0 million and inventories and record masters of approximately HK$7.6 million. The current liabilities comprised trade payables of approximately HK$15.9 million, other payables and accrued charges of approximately HK$32.3 million and obligations under finance leases and hire purchase contracts of approximately HK$0.1 million.

After the capitalisation on 30th November, 2000 of an amount of approximately HK$91,163,000 due to Questrel, the Group's outstanding balance due to Questrel reduced to approximately HK$26,500,000. On 4th December, 2000, Questrel has undertaken to the Company that it will not request the Group to repay the outstanding amount of loan due from the Group to Questrel in the amount of HK$26,500,000 for a period of 12 months from the Listing Date and Questrel further agreed to waive any interest on such amount of loan during the same period.

Borrowings and banking facilities

The Group generally finances its operations with unsecured loans provided by Questrel. The Group had no other borrowings and banking facilities other than obligations under finance leases and hire purchase contracts and an unsecured bank overdraft, as at 31st October, 2000.

Capital commitments

At 31st October, 2000, the Group had no material capital commitments.

Other commitments

At 31st October, 2000 the Group was committed to pay an aggregate sum of approximately HK$18.1 million in respect of artiste fees which was not provided in the financial statements.

Financial resources

Prior to the completion of the Share Offer, the Group's operations and investments will be financed principally by Questrel. It is expected that the net proceeds raised by the Share Offer will be sufficient to meet the future operating and capital expenditure cashflow requirements until the Group's operations become mature and are capable of generating positive cashflows. It is also expected that the Group may raise bank borrowings should the need arise.

TRADING RECORD

The following is a summary of the combined results of the Group for each of the two years ended 31st March, 2000 and the three months ended 30th June, 2000 which have been extracted from the accountants' report set out in appendix I to this prospectus.

	Year ended 31st March, 1999	**Year ended 31st March, 2000**	**Three months ended 30th June, 2000**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	12,253	52,082	21,929
Loss before taxation	(19,949)	(27,628)	(1,498)
Taxation	—	(5)	—
Loss for the year/period	(19,949)	(27,633)	(1,498)
Dividends	—	—	—

TURNOVER

The following is a breakdown of the Group's turnover by geographical region (based on the customers' addresses stated on the invoices) for each of the two years ended 31st March, 2000 and the three months ended 30th June, 2000.

	Year ended 31st March, 1999	Year ended 31st March, 2000	Three months ended 30th June, 2000
	HK$'000	*HK$'000*	*HK$'000*
Hong Kong	11,929	45,148	20,178
PRC	324	3,264	1,399
Taiwan	—	3,670	352
	12,253	52,082	21,929

Under paragraph 27 of the Third Schedule to the Companies Ordinance, the Group is required to set out in its listing document a statement as to its gross trading income or sales turnover for each of the three preceding financial years. Paragraph 31 of the Third Schedule to the Companies Ordinance requires the Group to set out a report prepared by its auditors and reporting accountants, containing its financial information in respect of each of the three financial years immediately preceding the issue of the listing document. The Securities and Futures Commission has granted to the Company an exemption from strict compliance with Section 342(1) of the Companies Ordinance, on the ground that compliance with paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance would be unduly burdensome for the Company, such that the Company is only required to include in this prospectus its trading record, financial results and information for each of the two years ended 31st March, 2000 and the three months ended 30th June, 2000.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

The following is a discussion of the combined results of operations of the Group for each of the two years ended 31st March, 2000 and the three months ended 30th June, 2000 based on the presentation in the accountant's report as set out in appendix I to this prospectus.

Overview

The Group is principally engaged in (i) music production and distribution; (ii) artiste management; and (iii) event production in the Greater China region with primary focus in Hong Kong. The music production and distribution includes production and distribution of music catalogues of the Group's own artistes and catalogues licensed from third parties, licensing of the Group's albums and catalogues licensed from third parties and licensing of the Group's songs and/or lyrics to other record companies.

The Group's music production and distribution is primarily based on the Hong Kong market and the artiste management and event production are targeted at the Greater China market.

Turnover

The Group's turnover is derived from the music production and distribution, artiste management and from event production. The Group's turnover has increased from approximately HK$12.3 million for the year ended 31st March, 1999 to approximately HK$52.1 million for the year ended 31st March, 2000. For the three months ended 30th June, 2000, turnover amounted to approximately HK$21.9 million. The music production and distribution contributed to the largest portion of turnover for the two years ended 31st March 2000 and the three months ended 30th June, 2000 which accounted for approximately 87.3%, approximately 85.3% and approximately 73.5% of the total turnover respectively.

Turnover from the sale of albums of the Group increased by approximately four times from approximately HK$9.7 million for the year ended 31st March, 1999 to approximately HK$38.0 million for the year ended 31st March, 2000. For the three months ended 30th June, 2000, turnover from the sale of albums of the Group amounted to approximately HK$14.7 million. The increase in the sale of albums was due to the increase in the quantity of albums sold from 181,621 units of albums for the year ended 31st March, 1999 to 545,880 units of albums for the year ended 31st March, 2000. For the three months ended 30th June, 2000, 228,746 units of albums were sold. This is the result of the combined effects of (i) the increase in the number of artistes from six as at 31st March, 1999 to 11 as at 31st March, 2000 and 30th June, 2000; (ii) the increase in the number of records released from 18 albums for the year ended 31st March, 1999 to 41 albums for the year ended 31st March, 2000 and to 14 albums for the three months ended 30th June, 2000 and (iii) the improvement in popularity of the Group's artistes. As Asia's economy gradually recovered and Hong Kong's piracy problem improves, the Directors expect that the sale of albums will continue to improve.

For each of the two years ended 31st March, 2000 and the three months ended 30th June, 2000, the bad debts provision from the sale of albums are not significant. As at 30th June, 2000, approximately HK$0.2 million and approximately HK$4.5 million out of a total of HK$16.3 million trade debts was aged over 180 days and 360 days respectively, out of which approximately HK$3.9 million was provided for.

Artiste management fee income, the second largest portion of turnover of the Group for the year ended 31st March, 1999, the year ended 31st March, 2000 and the three months ended 30th June, 2000 accounted for approximately 12.7%, approximately 9.9% and approximately 26.5% of the total turnover respectively. The amount tripled from approximately HK$1.6 million for the year ended 31st March, 1999 to approximately HK$5.2 million for the year ended 31st March, 2000. Artiste management income for the three months ended 30th June, 2000 amounted to approximately HK$5.8 million. This increase in artiste management fee income was due to the increase in the number of artistes in the Group and the improvement in popularity of the artistes of the Group. As a result, the number of appearance attended by the artistes managed by the Group in events including shows and concerts has increased from 120 for the year ended 31st March, 1999 to 223 for the year ended 31st March, 2000 and to 32 for the three months ended 30th June, 2000; the number of endorsement contracts entered into by the Group's artistes has increased from five for the year ended 31st March, 1999 to 16 for the year ended 31st March, 2000 and to 12 for the three months ended 30th June, 2000 and the number of films cast by the Group's artistes has also increased from 14 for the year ended 31st March, 1999 to 18 for the year ended 31st March, 2000 and to 8 for the three months ended 30th June, 2000.

The Group started to organise concerts and shows for the year ended 31st March, 2000. The turnover from the event production for the year ended 31st March, 2000 amounted to approximately HK$2.5 million which represented approximately 4.8% of the total turnover for the year ended 31st March, 2000.

The following table shows a breakdown of the Group's turnover for each of the two years ended 31st March, 2000 and the three months ended 30th June, 2000:

	Year ended 31st March, 1999	Year ended 31st March, 2000	Three months ended 30th June, 2000
	HK$'000	*HK$'000*	*HK$'000*
Music production and distribution	10,700	44,445	16,122
Artiste management	1,553	5,151	5,807
Event production	—	2,486	—
Total	12,253	52,082	21,929

Cost of sales

The cost of music production and distribution includes the production cost of albums (mainly recording cost, design fee, advertising and promotion expenses, and MTV production fee), press and printing cost of music albums and licence royalty to licensors, artiste royalty to artistes and mechanical royalty to song composers and lyric writers based on the actual sales of the relevant albums. The cost of music production and distribution for the years ended 31st March, 1999, 31st March, 2000 and for the three months ended 30th June, 2000 were approximately HK$15.7 million, approximately HK$52.4 million and approximately HK$15.1 million respectively. The music production and distribution business recorded losses in gross terms of approximately HK$5.0 million and approximately HK$7.9 million for the years ended 31st March, 1999 and 2000 respectively but recorded a gross profit of approximately HK$1.0 million for the three months ended 30th June, 2000. The loss for the years ended 31st March, 1999 and 31st March, 2000 was due to the substantial expenditure on advertising and promotion for the release of albums, which represented approximately 27.4% for the year ended 31st March, 1999 and approximately 27.3% for the year ended 31st March, 2000, of the total cost of music production and distribution and amounted to approximately HK$4.3 million and approximately HK$14.3 million respectively. Besides, the sale of several albums was less than the budgeted breakeven sales level. For the three months period ended 30th June, 2000, the Group spent substantial amount on the promotion of Nicholas Tse's new album – "零距離" and Joey Yung's new album – "不容錯失". The proportion of advertising and promotion expenses has increased from approximately 27.3% for the year ended 31st March, 2000 to approximately 30.6% for the three months ended 30th June, 2000 of the total cost of music production and distribution. Nevertheless, these two albums were well responded by the public and has made the music production and distribution business profitable with a gross profit of approximately HK$1.0 million for the three months ended 30th June, 2000.

The costs of artiste management are not significant and mainly comprise payroll and overheads such as travelling, hair stylists and make up. These expenses were included in the administrative expenses.

The cost of event production represents the cost of self-organised events and mainly comprises the rental charges for the venue, CASH royalties, performance costs for artiste and band, remuneration for the event producer, floor manager and assistants and ticket printing fee, booking cost of venue, music arrangement fee, rehearsal fee for bands and studios, stage set-up cost, costume and stage props, advertising and promotion cost and other operation costs. The cost of event production depends

on the number of shows performed. The amount for the year ended 31st March, 2000 was approximately HK$1.9 million and the gross profit of the self-organised events was approximately 15.7% for the year ended 31st March, 2000.

Distribution costs

The distribution costs mainly include artiste fees, advertising, audition fees, declaration charges, entertainment, travelling and motor vehicles running expenses. The distribution costs of the Group for the past two years remained relatively stable. Such cost for the years ended 31st March, 1999 and 31st March, 2000 were approximately HK$4.7 million and approximately HK$6.0 million respectively. The amount for the three months ended 30th June, 2000 was approximately HK$1.5 million.

Administrative expenses

The administrative expenses mainly include employees' payroll, retirement scheme contribution and benefits, rental expenses, depreciation, travelling expenses, professional fees and other miscellaneous expenses. The employees' payroll and retirement scheme contribution and benefits (including directors' remuneration) constituted the largest portion of the total administrative expenses of the Group and amounted to approximately HK$8.2 million, approximately HK$13.2 million and approximately HK$5.0 million for the two years ended 31st March, 2000 and for the three months ended 30th June, 2000 respectively. The administrative expenses increased gradually from approximately HK$13.1 million for the year ended 31st March, 1999 to approximately HK$21.5 million for the year ended 31st March, 2000 and to approximately HK$7 million for the three months ended 30th June, 2000 (which the annualised amount will be HK$28 million). The increment was due to the expansion of the office and an increase in headcount.

Taxation

As the Group was still carrying a loss, no provision for Hong Kong Profits Tax was made for the years ended 31st March, 1999 and 31st March, 2000 and the three months ended 30th June, 2000. The tax charge for the year ended 31st March, 2000 represented underprovision of tax in previous years. The Group is not subject to taxation in any other jurisdictions in which it operates and it did not have any significant deferred taxation in respect of the two years ended 31st March, 2000 and the three months ended 30th June, 2000.

Liquidity and capital resources

The Group currently funds its operations and investments in equipment through cash from operation, finance leases and hire purchase contracts and unsecured loans from Questrel. The outstanding amount due from the Group to Questrel as at 30th June, 2000 was approximately HK$110.7 million.

Save as disclosed above and apart from the intra-group liabilities and normal trade payables, the Group had no other borrowings as at 30th June, 2000. The Directors consider that the Group will fund its working capital and capital expenditure through cash flow from operations, the net proceeds of the Share Offer and its cash in bank or on hand. The Directors expect that, on a long-term basis, the Group's liquidity will be funded from its operations and, if necessary, additional equity financing or bank lending.

The cost of sales constitutes a large portion of the total expenses of the Group. The Group anticipates that it will continue to experience significant growth in its total expenses due to the continuing expansion of its business for the foreseeable future and that its total expenses will constitute a material use of the Group's cash resources.

As at 30th June, 2000, the Group had current assets of approximately HK$44.8 million, which principally comprised bank balances and cash of approximately HK$12.9 million, trade receivables of approximately HK$12.3 million, prepayments and other receivables of approximately HK$16.9 million and inventories and record masters of approximately HK$2.7 million. As at the same date, the Group also had non-current assets of approximately HK$19.2 million, consisting of property, plant and equipment of approximately HK$2.5 million, interests in associates of approximately HK$0.2 million and prepayments and other receivables of approximately HK$16.5 million.

As at 30th June, 2000, the Group had current liabilities of approximately HK$28.9 million, which comprised trade payables of approximately HK$11.7 million, other payables and accrued charges of approximately HK$17.1 million and obligations under finance leases and hire purchase contracts of approximately HK$0.1 million. As at the same date, the Group also had non-current liabilities, which principally comprised an amount due to Questrel of approximately HK$110.7 million.

PROFIT FORECAST

The Directors forecast that, in the absence of unforeseen circumstances and on the bases and assumptions set out in the paragraph headed "Bases and assumptions" in appendix II to this prospectus, the combined profit after taxation but before extraordinary items of the Group for the year ending 31st March, 2001 will not be less than HK$7.0 million. The Directors are not aware of any extraordinary items which have arisen or are likely to arise in respect of the year ending 31st March, 2001.

On the basis of the profit forecast and the weighted average number of 168,870,016 Shares expected to be in issue during the year ending 31st March, 2001 (assuming that the Over-allotment Option is not exercised), the forecast earnings per Share on a weighted average basis is 4.15 cents per Share.

On the basis of the profit forecast and on the assumptions that (i) the Group had been listed since 1st April, 2000 and a total of 240,000,000 Shares were in issue throughout the year ending 31st March, 2001 and (ii) interest income that would have been earned if the estimated net proceeds from the Share Offer, based on the stated range of Issue Price of HK$1.03 and HK$1.08 per Share, were received on 1st April, 2000 and had earned interest at the rate of 5% per annum, the forecast earnings per Share on a pro forma fully diluted basis for the year ending 31st March, 2001 are 4.21 cents per Share and 4.31 cents per Share respectively.

The texts of the letters from the auditors and reporting accountants, and from BNP Paribas Peregrine Capital in respect of the profit forecast are set out in the paragraph headed "Letters" in appendix II to this prospectus.

DIVIDENDS

During the year ended 31st March, 1999, Fitto Publishing Company Limited declared an interim dividend amounting to HK$290,989 to its holding company, Fitto Entertainment.

The Directors currently do not expect to recommend payment of dividend for the year ending 31st March, 2001. Should dividends be paid in the future, the Group will probably announce such dividends in July and December respectively of each year. The declaration, payment and amount of dividends will be subject to the discretion of the Directors and will be dependent upon the Group's future operations and earnings, financial condition, cash requirements and availability, and other factors as may be deemed relevant at such time by the Directors.

WORKING CAPITAL

Taking into account the estimated net proceeds of the Share Offer and the proceeds of the Pre-IPO Issue, the Directors are of the opinion that the Group has sufficient working capital for its present requirements.

DISTRIBUTABLE RESERVES

As at 30th June, 2000, the Company has not been incorporated and accordingly, there was no reserve available for distribution to the shareholders of the Company.

ADJUSTED NET TANGIBLE ASSETS

The following pro forma statement of adjusted net tangible assets of the Group is based on the audited combined net liabilities of the Group as at 30th June, 2000 as shown in the accountants' report, the text of which is set out in appendix I to this prospectus, and adjusted as described below:

	Based on an Offer Price of HK$1.03	**Based on an Offer Price of HK$1.08**
	HK$'000	*HK$'000*
Audited combined net liabilities of the Group as at 30th June, 2000	(75,552)	(75,552)
Combined loss after taxation of the Group for the four months ended 31st October, 2000 as per unaudited management accounts	(4,867)	(4,867)
Capitalisation of amount due to Questrel Holdings Limited *(Note 1)*	91,163	91,163
Estimated net proceeds of the Share Offer *(Note 2)*	83,000	88,000
Proceeds of the Pre-IPO Issue *(Note 3)*	46	46
Adjusted net tangible assets	93,790	98,790
Adjusted net tangible asset value per Share *(Note 4)* (based on 240,000,000 Shares in issue and to be issued as mentioned herein)	39 cents	41 cents

Notes:

1. Details of the capitalisation are set out in the paragraph headed "Group reorganisation" in the section headed "Further information about the Company and its subsidiaries" in appendix V to this prospectus.

2. No account has been taken of the Shares which may be issued upon the exercise of the Over-allotment Option.

3. The proceeds of the Pre-IPO Issue is based on an issue price of HK$0.01 per Share and a total of 4,629,629 Shares will be allotted and issued. Details of the Pre-IPO Issue are set out in the paragraph headed "Pre-IPO Issue" in the section headed "Directors, management and staff" in this prospectus.

4. The adjusted net tangible asset value per Share is arrived at after the adjustments referred to in this section and on the basis of 240,000,000 Shares in issue and to be issued immediately following completion of the Share Offer, the Capitalisation Issue and the Pre-IPO Issue but takes no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or of any options which may be granted under the Share Option Schemes or which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares described in the paragraph headed "Written resolutions of the sole shareholder of the Company passed on 30th November, 2000" in the section headed "Further information about the Company and its subsidiaries" in appendix V to this prospectus.

RULES 17.15 TO 17.21 OF THE GEM LISTING RULES

The Directors have confirmed that, as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

NO MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 30th June, 2000 (being the date to which the latest audited combined financial statements of the Group were prepared).

Properties leased by the Group include: (i) Unit B on 4th Floor, Kwok Kee Group Centre, 107 How Ming Street, Kwun Tong, Kowloon, Hong Kong; (ii) portions of 27th Floor, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong; (iii) Carpark Nos. 24 and 24A on Ground Floor, Kwong Sang Hong Building, Blocks CD, Wanchai, Hong Kong; (iv) a car parking space on Basement 2, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong; (v) Unit 2001 on 20th Floor, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong; (vi) Unit four of 3rd Floor, No. 13, Lane 16, Ta-An Road Section 1, Taipei, Taiwan; and (vii) 1st Floor, No. 49, Lane 161, Tun-Hwa South Road Section 1, Taipei, Taiwan. Details of these properties are set out in appendix III to this prospectus.

Chesterton Petty Limited, an independent property valuer, has valued the property interests of the Group as at 30th September, 2000. Details of the valuation and the text of the letter, summary of values and the valuation certificates from Chesterton Petty Limited are set out in appendix III to this prospectus.

Neither BNP Paribas Peregrine Capital nor any of its Associates expects to have accrued any material benefit as a result of the successful outcome of the Share Offer, other than the following: (i) by way of underwriting commissions to be paid to its Associate, BNP Paribas Peregrine Securities, for acting as one of the Underwriters to the Share Offer; (ii) the respective advisory and documentation fees to be paid to BNP Paribas Peregrine Capital as sponsor of the Share Offer; (iii) by a sponsorship agreement entered into between BNP Paribas Peregrine Capital and the Company on 7th December, 2000 pursuant to which BNP Paribas Peregrine Capital has been appointed as sponsor of the Company for the remainder of the financial year of the Group ending 31st March, 2001 and for the period of 24 months commencing from 1st April, 2001 and the Group shall pay an agreed fee to BNP Paribas Peregrine Capital for its provision of such services; and (iv) certain Associates of BNP Paribas Peregrine Capital, whose ordinary businesses involve the trading and dealing in securities, may be involved in the trading of and dealing in the securities of the Company.

Save for the obligations under the Underwriting Agreement, neither BNP Paribas Peregrine Capital nor any of its Associates has or may, as a result of the Share Offer, have any interest in any class os securities the Company or any other company in the Group (including options or rights to subscribe for such securities).

No director or employee of BNP Paribas Peregrine Capital has or may, as a result of the Share Offer, have any interest in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities but, for the avoidance of doubt, excluding interests in securities that may be subscribed for or purchased by any such director or employee pursuant to the Share Offer).

No director or employee of BNP Paribas Peregrine Capital or BNP Paribas Peregrine Securities has a directorship in the Company or any other company in the Group.

UNDERWRITERS

Placing Underwriters and Public Offer Underwriters

BNP Paribas Peregrine Securities Limited
Emperor Securities Limited
CEF Capital Limited
Celestial Capital Limited
Shenyin Wanguo Capital (H.K.) Limited
South China Securities Limited
Tai Fook Securities Company Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting Agreement

The Group is offering the Public Offer Shares for subscription on and subject to the terms and conditions of this prospectus and the application forms relating thereto, and the Placing Shares for subscription by way of the Placing. In addition, the Group has granted the Over-allotment Option to the Underwriters (exercisable by BNP Paribas Peregrine on behalf of the Underwriters) from time to time during the period of 30 days from the date of this prospectus to require the Group to issue up to an aggregate of 14,400,000 additional new Shares, representing 15% of the Offer Shares to cover over-allocation in the Placing, if any.

Subject to the GEM Listing Committee granting listing of, and permission to deal in, the Shares (subject only to allotment) and to certain other conditions set out in the Underwriting Agreement being satisfied not later than 7th January, 2001, the Public Offer Underwriters have severally agreed to apply or procure applications, on the terms and conditions of this prospectus and the application forms relating thereto, for the Public Offer Shares now being offered and which are not taken up under the Public Offer; and the Placing Underwriters have severally agreed to apply or procure placees for the Placing Shares which have not been subscribed for or placed pursuant to the Placing.

Grounds for termination

The obligations of the Underwriters to subscribe or procure subscribers for the Offer Shares are subject to termination by notice in writing from BNP Paribas Peregrine (on behalf of the Underwriters) if certain events, including but not limited to the following, shall occur at any time prior to 9:00 a.m. on the day on which share certificates representing the Offer Shares are despatched:

(a) any breach, considered by BNP Paribas Peregrine to be material in the overall context of the Share Offer, of any of the warranties or any other provision of the Underwriting Agreement;

(b) any matter which, had it arisen immediately before the date of this prospectus and not having been disclosed in this prospectus, would have constituted an omission considered by BNP Paribas Peregrine to be material in the overall context of the Share Offer;

(c) any statement contained in the prospectus considered to be material by BNP Paribas Peregrine is discovered to be or becomes untrue, incorrect or misleading in any respect considered in the reasonable opinion of BNP Paribas Peregrine to be material;

(d) any event, act or omission which gives or is likely to give rise to any material liability of the Group, the Directors or the warrantors pursuant to the indemnities contained in the Underwriting Agreement;

(e) any adverse change in the business or the financial or trading position of the Group which is considered in the reasonable opinion of BNP Paribas Peregrine to be material;

(f) any event or series of events, matters or circumstances concerning or relating to, or any change in:

(i) Hong Kong, Bermuda, the US, the PRC or any other relevant jurisdiction local, national or financial, political, economic, military, industrial, fiscal, regulatory or stock market conditions or sentiments; or

(ii) any new law or change in existing laws or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, Bermuda, the US, the PRC or any other relevant jurisdiction; or

(iii) any event of force majeure affecting Hong Kong, the US, the PRC or any other relevant jurisdiction including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, economic sanctions, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or

(iv) the conditions or sentiments of the Hong Kong or the US equity securities or other financial markets; or

(v) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange or the New York Stock Exchange due to exceptional financial circumstances or otherwise; or

(vi) a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the PRC or any other jurisdiction relevant to the Group or affecting an investment in the Shares or the transfer or dividend payment in respect thereof; which, in the sole opinion of BNP Paribas Peregrine:

(a) is or will be, or is likely to be, materially adverse to the business, financial or other condition or prospects of the Group taken as a whole; or

(b) makes it inadvisable or inexpedient to proceed with the Public Offer and/or the Placing.

Undertakings

Details of the undertakings given by the Initial Management Shareholders are set out in the paragraph headed "Undertakings given by the Initial Management Shareholders" under the section headed "Substantial, management and significant shareholders" in this prospectus.

Commission and expenses

The Underwriters will receive a commission of 4.5% of the Issue Price of all the Offer Shares (including Shares to be issued under the Over-allotment Option) out of which each Underwriter will pay its own sub-underwriting commissions and selling commission, and BNP Paribas Peregrine Capital will in addition receive a financial advisory fee and a documentation fee in relation to the Share Offer. Such fee and commission, together with the Stock Exchange listing fees, the Stock Exchange transaction levy, legal and other professional fees, printing and other expenses relating to the Share Offer, and stamp duty relating to the transfer of properties pursuant to the Reorganisation, which are currently estimated to amount in aggregate to approximately HK$16 million (based on the maximum Issue Price of HK$1.08 per Share assuming the Over-allotment Option is not exercised), are to be borne by the Group.

Underwriters' interest in the Group

Save for its obligations under the Underwriting Agreement, none of the Underwriters has any shareholding interests in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

PRICE PAYABLE ON APPLICATION

The maximum Issue Price of HK$1.08 per Share plus 1% brokerage and 0.01% Stock Exchange transaction levy amounting to a total of HK$2,181.82 per board lot of 2,000 Shares.

CONDITIONS OF THE SHARE OFFER

Acceptance of all applications for the Offer Shares will be conditional on:

(a) the GEM Listing Committee granting listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned herein; and

(b) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional which requires, amongst other things, that the Issue Price be agreed by no later than the Price Determination Time (1:00 p.m. on 13th December, 2000) and the Price Determination Agreement being entered into and the obligations of the Underwriters under the Underwriting Agreement not being terminated prior to 10:00 a.m. on the business day on which share certificates representing the Offer Shares are despatched.

If, for any reason, the Price Determination Agreement is not entered into, the Share Offer will not proceed.

If these conditions are not fulfilled (or, where applicable, waived by BNP Paribas Peregrine Securities (on behalf of the Underwriters)) on or before 7th January, 2001, your application monies will be returned to you, without interest. The terms on which your money will be returned to you are set out in the section headed "Refund of your money" on the application form.

In the above eventuality, all application monies will be returned to the applicants, without interest and on the terms set out under the section headed "Refund of your money" in the application forms. In the meantime, application monies will be held in a separate bank account or separate bank accounts with the receiving banker or other bank(s) licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

THE SHARE OFFER

The Share Offer comprises the Public Offer and the Placing. A total of 96,000,000 Shares (excluding any Shares to be issued pursuant to the Over-allotment Option) will initially be made available under the Share Offer. 19,200,000 Shares representing 20% of the total number of Shares initially available under the Share Offer, will initially be offered for subscription under the Public Offer, and the remaining 76,800,000 Shares will initially be offered for subscription under the Placing. The number of Shares initially offered under the Public Offer, and the number of Shares initially available under the Placing are subject to reallocation in the event that the Public Offer is under-subscribed as described below under "Offer mechanism – reallocation of the Offer Shares between the Public Offer and the Placing".

The Issue Price will be fixed by agreement between BNP Paribas Peregrine Securities on behalf of the Underwriters, and the Company on or before the Price Determination Time. If BNP Paribas Peregrine, on behalf of the Underwriters, and the Company are unable to reach an agreement on the Issue Price, the Share Offer will not become unconditional and will lapse. Applicants under the Share Offer should note that in no circumstances can applications be withdrawn once submitted.

Investors may apply for Shares under the Public Offer or indicate an interest for Shares under the Placing, but may not do both. The Public Offer is open to members of the public in Hong Kong as well as to institutional and professional investors. The Placing will involve selective marketing of Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for the Shares pursuant to a placement including placement of up to 7,680,000 Shares with certain employees of the Group on a preferential basis. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Assuming the Over-allotment Option is not exercised, the Offer Shares will represent 40% of the Group's enlarged issued share capital immediately after completion of the Share Offer. If the Over-allotment Option is exercised in full, the Shares comprised in the Share Offer will represent 43.40% of the enlarged issued share capital of the Group immediately after completion of the Share Offer and the exercise of the Over-allotment Option.

The Public Offer is fully underwritten by the Public Offer Underwriters and the Placing is fully underwritten by the Placing Underwriters, in each case on a several basis, each being subject to the conditions set out in the paragraph headed "Underwriting arrangements and expenses" under the section headed "Underwriting" in this prospectus.

THE PUBLIC OFFER

The Public Offer is a fully underwritten public offer for subscription in Hong Kong of, initially, 19,200,000 Shares at the Issue Price (representing 20% of the total number of Shares initially available under the Share Offer). Subject to the reallocation of Offer Shares between the Placing and the Public Offer, the Public Offer Shares will represent 8% of the Group's enlarged issued share capital immediately after completion of the Share Offer, assuming that the Over-allotment Option is not exercised.

The Public Offer is sponsored by BNP Paribas Peregrine Capital and underwritten by the Public Offer Underwriters. Applicants under the Public Offer are required to pay, on application, the maximum Issue Price of HK$1.08 in addition to 1% brokerage and 0.01% Stock Exchange transaction levy payable. If the Issue Price, as finally determined in the manner described above, is less than the maximum price of HK$1.08, appropriate refund payments (including the brokerage and the Stock Exchange transaction levy attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section headed "How to apply for the Public Offer Shares" in this prospectus.

Allocation of Public Offer Shares will be based solely on the level of valid applications received. The basis of allocation may vary depending on the number of Public Offer Shares validly applied for by each applicant, but will otherwise be made on a strictly pro-rata basis. In addition, the allocation of Public Offer Shares in such circumstances may involve balloting, which would mean that some applicants may be allotted more Public Offer Shares than others who have applied for the same number of Public Offer Shares and that applicants who are not successful in the ballot may not receive any Public Offer Shares.

THE PLACING

The Group is initially offering 76,800,000 Shares, representing 80% of the Shares initially available under the Share Offer, for subscription under the Placing. Subject to the reallocation of Offer Shares between the Placing and the Public Offer in the event that the Public Offer is under-subscribed, the Placing Shares will represent 32% of the Group's enlarged issued share capital immediately after completion of the Share Offer, assuming that the Over-allotment Option is not exercised.

Allocation of Placing Shares to professional, institutional and other investors pursuant to the Placing is based on a number of factors including the level and timing of demand and whether or not it is expected that the relevant investor is likely to buy further Shares, or hold or sell its Shares, after the listing of the Shares on GEM. Such allocation is generally intended to result in a distribution of the Placing Shares on a basis which will lead to the establishment of a broad shareholder base to the benefit of the Group and its shareholders as a whole.

PREFERENCE TO EMPLOYEES UNDER THE PLACING

A maximum of 7,680,000 Shares, being about 10% of the total number of the Placing Shares (excluding any Shares which may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option or reallocation) are available for subscription at the Issue Price to the full-time employees (excluding the Directors) of the Group under the Placing on a preferential basis.

OFFER MECHANISM – REALLOCATION OF THE OFFER SHARES BETWEEN THE PUBLIC OFFER AND THE PLACING

The allocation of the Offer Shares between the Public Offer and the Placing is subject to adjustment. If the Public Offer is not fully subscribed, BNP Paribas Peregrine has the authority to reallocate all or any unsubscribed Public Offer Shares originally included in the Public Offer to the Placing in such proportions as it deems appropriate. If the Public Offer is over-subscribed, there is no re-allocation from the Placing tranche to the Public Offer tranche.

OVER-ALLOTMENT OPTION

In connection with the Share Offer, the Company has granted to the Placing Underwriters the Over-allotment Option which is exercisable by BNP Paribas Peregrine on behalf of the Placing Underwriters at any time at or before 5:00 p.m. on Monday, 8th January, 2001. Pursuant to the Over-allotment Option, the Company may be required to allot and issue at the Issue Price up to an aggregate of 14,400,000 additional Shares, representing 15% of the Offer Shares initially available under the Share Offer, solely to cover over-allocations in the Placing, if any. In order to facilitate settlement of over-allocations in connection with the Placing, the Stock Borrowing Agreement has also been entered into among BNP Paribas Peregrine Securities and Questrel. Pursuant to this arrangement, Questrel has agreed that, if so requested by BNP Paribas Peregrine Securities, Questrel will lend to BNP Paribas Peregrine Securities up to 14,400,000 Shares on the following terms:

(i) the borrowed Shares will only be used to settle over-allocations under the Placing, and

(ii) the same number of Shares must be returned to Questrel and redeposited with the escrow agent, no later than three business days following the earlier of (a) the day on which the Over-allotment Option is exercised in full; or (b) the last day on which the Over-allotment Option may be exercised.

Application has been made to the Stock Exchange for a waiver from strict compliance with Rule 13.16 of the GEM Listing Rules which restricts the disposal of Shares by Questrel following two years from the date of listing of the Shares on GEM, in order to allow Questrel to enter into this stock borrowing arrangement. Details of such waiver are set out in the section headed "Waiver from compliance with the GEM Listing Rules and Companies Ordinance" in this prospectus. BNP Paribas Peregrine may also cover such over-allocations by, among other means, purchasing Shares in the secondary market, exercise of the Over-allotment Option, or by a combination of purchases in the secondary market and exercise of the Over-allotment Option. Any such secondary market purchase will be made in compliance with all applicable laws, rules and regulations. If the Over-allotment Option is exercised in full, the Offer Shares will represent 43.40% of the enlarged issued share capital of the Company immediately after completion of the Share Offer and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, an announcement will be made on the GEM website, and in the Hong Kong iMail in English and in the Hong Kong Daily News in Chinese.

STABILISATION

In connection with the Share Offer, BNP Paribas Peregrine Securities on behalf of the Underwriters, may over-allocate and/or effect transactions which stabilise or maintain the market price of the Shares at levels other than those which might otherwise prevail. The number of Shares that may be over-allocated will be no greater than the number of Shares that may be issued under the Over-allotment Option. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements. Such stabilisation, if commenced, may be discontinued at any time.

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the Underwriters may bid for or purchase the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial issue price of the securities. The stabilisation price will not be higher than the Issue Price.

Should stabilising transactions be effected in connection with the distribution of the Shares, they will be done at the direction, and in the absolute discretion, of BNP Paribas Peregrine. In Hong Kong, such stabilisation activities are restricted to cases where the Underwriters genuinely purchase shares in the secondary market effected solely for the purpose of covering over-allocations in the offering. The price paid in the secondary market for Shares to cover over-allocations will not be higher than the Issue Price. The relevant provisions of the Securities Ordinance (Cap 333 of the Laws of Hong Kong) prohibit market manipulation in the form of pegging or stabilising the price of securities in certain circumstances.

WHICH APPLICATION FORM TO USE

Use a **WHITE** application form if you want the Public Offer Shares issued in your own name.

Use a **YELLOW** application form if you want the Public Offer Shares issued in the name of HKSCC Nominees Limited and deposited directly into CCASS for credit to your investor participant stock account or your designated CCASS participant's stock account.

WHERE TO COLLECT THE APPLICATION FORMS

Copies of this prospectus, together with **WHITE** application forms, may be obtained from:

Any participant of
The Stock Exchange of Hong Kong Limited
or
BNP Paribas Peregrine Securities Limited
35th & 36th Floors, Asia Pacific Finance Tower
3 Garden Road
Central
Hong Kong

Emperor Securities Limited
23rd & 24th Floors
Emperor Group Centre
288 Hennessy Road
Wanchai
Hong Kong

CEF Capital Limited
Suite 2001, 20th Floor
Cheung Kong Center
2 Queen's Road Central
Central
Hong Kong

Celestial Capital Limited
22nd Floor
The Center
99 Queen's Road Central
Hong Kong

Shenyin Wanguo Capital (H.K.) Limited
28th Floor
Citibank Tower
Citibank Plaza
3 Garden Road
Hong Kong

South China Securities Limited
28th Floor
Bank of China Tower
No. 1 Garden Road
Central
Hong Kong

Tai Fook Securities Company Limited
25th Floor
New World Tower
16-18 Queen's Road Central
Hong Kong

or any of the following branch or sub-branches of Bank of China:

Hong Kong Island:	Hong Kong Branch	3/F., 1 Garden Road, Central
	Central Sub-branch	Li Po Chun Chambers, 189 Des Voeux Road Central
	Wanchai Sub-branch	395 Hennessy Road, Wanchai
	North Point Sub-branch	G/F., Roca Centre, 464 King's Road, North Point
	Taikoo Shing Sub-branch	Hoi Sing Mansion, Taikoo Shing
Kowloon:	Tsim Sha Tsui Sub-branch	G/F., Houston Centre, 63 Mody Road, Tsimshatsui
	Yaumatei Sub-branch	471 Nathan Road, Yaumatei
	Kwun Tong Sub-branch	55 Hoi Yuen Road, Kwun Tong
New Territories:	Tsuen Wan Sub-branch	167 Castle Peak Road, Tsuen Wan
	Shatin Sub-branch	G/F., Lucky Plaza, Wang Pok Street, Shatin

You can collect a **YELLOW** application form and a prospectus from:

(a) the service counter of Hongkong Clearing at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong; or

(b) the Investor Service Centre of Hongkong Clearing at Room 1901, Chinachem Exchange Square, 1 Hoi Wan Street, Quarry Bay, Hong Kong; or

(c) your broker may have the application forms available.

HOW TO COMPLETE THE APPLICATION FORM

There are detailed instructions on each application form. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected and returned by ordinary post together with the accompanying cheque(s) or banker's cashier order(s) to you (or the first-named applicant in the case of joint applicants) at your own risk at the address stated in the application form.

If your application is made through a duly authorised attorney, the Group and BNP Paribas Peregrine, as agent for the Group, may accept it at their discretion, and subject to any conditions they think fit, including evidence of the authority of your attorney.

If the Issue Price as finally determined is less than the maximum Issue Price, appropriate refund payments (including brokerage and the Stock Exchange transaction levy attributable to the surplus application monies) will be made to successful applicants, without interest. Details of the procedure for refund are set out below in the paragraph headed "Despatch/collection of share certificates and refund cheques".

In order for the **YELLOW** application forms to be valid:

(a) If the application is made through a designated CCASS participant (other than an investor participant):

(i) the designated CCASS participant or its authorised signatory(ies) must sign in the appropriate box; and

(ii) the designated CCASS participant must endorse the form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box.

(b) If the application is made by a CCASS individual investor participant:

(i) the application form must contain the investor participant's name and Hong Kong identity card number; and

(ii) the investor participant should insert its participant I.D. and sign in the appropriate box in the application form.

(c) If the application is made by CCASS joint individual investor participants:

(i) the application form must contain all joint investor participants' names and the Hong Kong identity card number of at least one of the joint investor participants; and

(ii) the participant I.D. should be inserted and the authorised signatory(ies) of the investor participant's stock account should sign in the appropriate box in the application form.

(d) If the application is made by a CCASS corporate investor participant:

(i) the application form must contain the investor participant's company name and Hong Kong business registration number; and

(ii) the participant I.D. and company chop (bearing the applicant's company name) endorsed by its authorised signatory(ies) should be inserted in the appropriate box in the application form.

(e) Signature(s), number of signatories and form of chop, where appropriate, should match with the records kept by Hongkong Clearing. Incorrect or incomplete details of the CCASS participant or the omission or inadequacy of authorised signatory(ies) (if applicable), CCASS participant I.D. or other similar matters may render the application invalid.

Nominees who wish to submit separate applications in their names on behalf of different beneficial owners are requested to designate on each application form in the box marked "For nominees" account numbers or other identification codes for each beneficial owner or, in the case of joint beneficial owners, for each such joint beneficial owner.

Each **WHITE** or **YELLOW** application form must be accompanied by either one separate cheque drawn on the applicant's Hong Kong dollar bank account in Hong Kong and bearing the account name (either pre-printed by the bank or certified by an authorised signatory of such bank on the reverse of the cheque) which must correspond with the name of the applicant (or, in the case of joint applicants, the name of the first applicant) on the relevant application form, or one separate banker's cashier order on the reverse of which the bank has certified by an authorised signatory the name of the applicant, which must correspond with the name of the applicant (or, in the case of joint applicants, the name of the first applicant) on the relevant application form. All such cheques or banker's cashier orders must be made payable as set out in the application form and crossed ''Account Payee Only''.

HOW MANY APPLICATIONS MAY YOU MAKE

There is only one situation where you may make more than one application for the Public Offer Shares:

If you are a **nominee**, you may lodge more than one application in your own name on behalf of different beneficial owners. In the box on the application form marked ''For nominees'' you must include:

- an account number; or
- some other identification code

for **each** beneficial owner. If you do not include this information, the application will be treated as being for your own benefit.

Otherwise, multiple applications for Public Offer Shares are not allowed.

It will be a term and condition of all applications for Public Offer Shares that by completing and delivering an application form, you:

- (if the application is made for your own benefit) warrant that this is the only application which will be made for your benefit on a **WHITE** or **YELLOW** application form;
- (if you are an agent for another person) warrant that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** application form, and that you are duly authorised to sign this form as that other person's agent.

All of your applications for Public Offer Shares will be rejected as multiple applications if you, or you and your joint applicants together:

- make more than one application on a **WHITE** or **YELLOW** application form; or
- apply on one **WHITE** or **YELLOW** application form for more than 100% of the Public Offer Shares initially being offered under the Public Offer; or

All of your applications for Public Offer Shares will also be rejected as multiple applications if more than one application for Public Offer Shares is made for your benefit . If an application is made by an unlisted company and

- the only business of that company is dealing in securities; and
- you exercise statutory control over that company then the application will be treated as being for your benefit.

Unlisted company *means a company with no equity securities listed on the Stock Exchange.*

Statutory control *means you:*

- *control the composition of the board of directors of the company; or*
- *control more than half of the voting power of the company; or*
- *hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).*

HOW MUCH ARE THE PUBLIC OFFER SHARES

The maximum Issue Price of the Public Offer Shares is HK$1.08 each. The proposed board lot for trading in the Shares is 2,000 Shares. You must pay the price of HK$1.08 per Share together with brokerage of 1% and Stock Exchange transaction levy of 0.01% in full when you apply for the Offer Shares. This means that for every 2,000 Shares you will pay HK$2,181.82.

You must pay the maximum Issue Price, brokerage and the Stock Exchange transaction levy in full when you apply for the shares.

If your application is successful, brokerage is paid to participants of the Stock Exchange and the transaction levy is paid to the Stock Exchange.

If the Issue Price as finally determined is less than the maximum Issue Price, appropriate refund payments (including brokerage and the Stock Exchange transaction levy attributable to the surplus application monies) will be made to successful applicants, without interest. Details of the procedure for refund are set out below in the paragraph headed "Despatch/collection of share certificates and refund cheques".

TIME FOR APPLYING FOR THE PUBLIC OFFER SHARES

Completed **WHITE** or **YELLOW** application forms, with payment attached, must be lodged by **12:00 noon on 13th December, 2000**, or, if the application lists are not open on that day, then by 12:00 noon on the next business day when the lists are open.

Your completed application form, with payment attached, should be deposited in the special collection boxes provided at any of the branch or sub-branches of Bank of China listed on page 117 of this prospectus at the following times:

8th December, 2000 – 9:00 a.m. to 4:00 p.m.
9th December, 2000 – 9:00 a.m. to 12:00 noon
11th December, 2000 – 9:00 a.m. to 4:00 p.m.
12th December, 2000 – 9:00 a.m. to 4:00 p.m.
13th December, 2000 – 9:00 a.m. to 12:00 noon

The application lists will be open **from 11:45 a.m. to 12:00 noon on 13th December, 2000**.

EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above, or
- a "black" rainstorm warning signal

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on 13th December, 2000. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warning signals in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

For the purpose of this section, business day means a day that is not a Saturday, Sunday or public holiday in Hong Kong.

CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED AND ISSUED OFFER SHARES

Details of the circumstances which you will not be allotted and issued the Offer Shares are set out in the notes contained in the application forms, and you should read them carefully. You should note in particular the following two situations in which the Offer Shares will not be allotted to you:

- **Your application is revoked:**

  By completing an application form you agree that you cannot revoke your application before the end of the fifth day after the time of opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong), being 20th December, 2000. This agreement will take effect as a collateral contract with the Group, and will become binding when you lodge your application form. This collateral contract will be in consideration of the Group agreeing that it will not offer any Offer Shares to any person before 20th December, 2000 except by means of one of the procedures referred to in this prospectus. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

You may only revoke your application earlier than the end of the fifth day after the time of opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) being 20th December, 2000 if a person responsible for this prospectus under Section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If your application has been accepted, it cannot be revoked.

- **Circumstances in which the allotment and issue of the Offer Shares is void:**

  Your allotment and issue of the Offer Shares will be void if the GEM Listing Committee of the Stock Exchange does not grant the approval for listing of and permission to deal in the Shares either:

  - within three weeks from the closing of the applications lists; or
  - within a longer period of up to six weeks if the GEM Listing Committee of the Stock Exchange notifies the Company of that longer period within three weeks of the closing of the application lists.

You should also note that you may apply for Offer Shares under the Public Offer or indicate an interest for Offer Shares under the Placing, but may not do both.

PUBLICATION OF RESULTS

The Company expects to release the level of indication of interest in the Placing, results of applications of the Public Offer and basis of allotment and issue of the Public Offer Shares and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants on or before 15th December, 2000 on the GEM Website and in the Hong Kong iMail (in English) and the Hong Kong Daily News (in Chinese).

DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND CHEQUES

If an application is rejected, not accepted or accepted in part only, or if the conditions of the Share Offer described under the paragraph headed ''Conditions of the Share Offer'' in the section headed ''Structure and conditions of the Share Offer'' are not fulfilled in accordance with their terms or if any application is revoked or any allotment pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage and Stock Exchange transaction levy, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

The Group will not issue temporary documents of title. No receipt will be issued for application monies paid.

WHITE application form:

If you have applied for 1,000,000 Public Offer Shares or above and have indicated on your application form that you will collect your share certificate(s) and refund cheque (if any) in person, you may collect them in person from:

Secretaries Limited
5th Floor
Wing On Centre
111 Connaught Road Central
Hong Kong

between 9:00 a.m. and 1:00 p.m. on the date notified by the Group on the GEM Website and in the newspapers as the date of despatch of share certificate(s) and refund cheque. This is expected to be on or before Friday, 15th December, 2000.

Applicants being individuals who opt for personal collection must not authorise any other person to make their collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporations stamped with the corporation chops. Both individuals and authorised representatives (if applicable) must produce at the time of collection evidence of identity acceptable to Secretaries Limited.

If you do not collect your share certificate(s) and/or refund cheque (if any), they will be sent to the address on your application form in the afternoon on the date of despatch, by ordinary post and at your own risk.

If you have applied for 1,000,000 Public Offer Shares or more and have not indicated on your application form that you will collect your share certificate(s) and refund cheque (if any) in person, or if you have applied for less than 1,000,000 Public Offer Shares, then your share certificate(s) and refund cheque (if any) will be sent to the address on your application form on the date of despatch, by ordinary post and at your own risk.

YELLOW application form:

Your share certificate(s) will be issued in the name of HKSCC Nominees Limited and deposited into CCASS for credit to your investor participant stock account or the stock account of your designated CCASS participant as instructed by you at the close of business on 15th December, 2000 or, under contingent situation, on any other date as shall be determined by Hongkong Clearing or HKSCC Nominees Limited.

If you are applying through a designated CCASS participant (other than an investor participant):

- for the Public Offer Shares credited to the stock account of your designated CCASS participant (other than an investor participant), you can check the number of the Public Offer Shares allocated to you with that CCASS participant.

If you are applying as a CCASS investor participant:

- the Group expects to publish the results of CCASS investor participants' applications together with the results of the Public Offer on the GEM Website and in the newspapers on 15th December, 2000. You should check against the announcement published by the Group and report any discrepancies to Hongkong Clearing before 5:00 p.m. on 15th December, 2000 or such other date as shall be determined by Hongkong Clearing or HKSCC Nominees Limited. On 16th December, 2000 (the next day following the credit of the Public Offer Shares to your stock account) you can check your new account balance via the CCASS Phone System (under the procedures contained in Hongkong Clearing's "An Operating Guide for Investor Participants" in effect from time to time). Hongkong Clearing will also mail to you an activity statement showing the number of Public Offer Shares credited to your stock account.

For applicants applying on **YELLOW** application forms, refund cheque(s) (if any) for (i) the surplus application monies for the Public Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful and/or (iii) the surplus application monies, if the final Issue Price is less than the maximum Issue Price are expected to be sent to or collected by applicants on 15th December, 2000. If you have applied for 1,000,000 Offer Shares or more and have indicated on your application form that you will collect your refund cheque (if any) in person, the procedures set out in the paragraph headed "WHITE application form" above will apply.

If you have applied for 1,000,000 Public Offer Shares or more and have not indicated on your application form that you will collect your refund cheque (if any) in person, or if you have applied for less than 1,000,000 Public Offer Shares, then your refund cheque (if any) will be sent to the address on your application form on the date of despatch, by ordinary post and at your own risk.

SHARES WILL BE ELIGIBLE FOR CCASS

If the Stock Exchange grants the listing of and permission to deal in, the Shares on GEM and the Company complies with the stock admission requirements of Hongkong Clearing, the Shares will be accepted as eligible securities by Hongkong Clearing for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Shares on GEM or on any other date as determined by Hongkong Clearing. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect their rights and interests.

CCASS participants should note, however, that in the event that the Share Offer is terminated in accordance with the paragraph headed "Conditions of the Share Offer" under the section headed "Structure and conditions of the Share Offer" at any time after the deposit of the allotted Offer Shares into CCASS, the Shares will cease to be eligible securities and should be removed from CCASS.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on GEM are expected to commence on 19th December, 2000.

The Shares will be traded in board lots of 2,000 each.

The following is the text of a report, prepared for the purposes of incorporation in this prospectus, from the auditors and reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants.

德勤•關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu

8th December, 2000

The Directors
Emperor Entertainment Group Limited
BNP Paribas Peregrine Capital Limited

Dear Sirs,

We set out below our report on the financial information regarding Emperor Entertainment Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for inclusion in the prospectus of the Company dated 8th December, 2000 (the "Prospectus").

The Company was incorporated as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda (as amended) on 17th October, 2000. Pursuant to a group reorganisation (the "Reorganisation") as fully explained in the paragraph headed "Group reorganisation" in Appendix V of the Prospectus, the Company has since 30th November, 2000 become the holding company of the Group which principally carries on the business of music production and distribution, artiste management and event production.

Subsequent to the Reorganisation referred to above, particulars of the Company's subsidiaries and associates, all of which are private companies, are as follows:

Name of company	Place and date of incorporation	Issued and fully paid share capital	Attributable equity interest of the Group	Principal activities
Subsidiaries				
Charming Grace Limited 志恩有限公司	Hong Kong 23rd August, 1999	HK$2	100%	Provision of artiste management services

Name of company	Place and date of incorporation	Issued and fully paid share capital	Attributable equity interest of the Group	Principal activities
Subsidiaries				
Dynamic Luck Limited 錦順有限公司	Hong Kong 19th March, 1999	HK$2	100%	Signing agent for organising events
EEG Limited	Samoa 23rd February, 1999	US$1	100%	Investment holding
EEG Management Services Limited	British Virgin Islands 19th May, 1999	US$1	100%	Holding of trademarks
EEG Music Publishing Limited 英皇音樂版權有限公司	Hong Kong 8th December, 1999	HK$2	100%	Licensing of musical works
EEG Nominee Limited	British Virgin Islands 2nd September, 1999	US$1	100%	Provision of nominee services
EEG Web Limited	British Virgin Islands 8th November, 1999	US$1	100%	Investment holding
Emperor Brilliant Limited	Hong Kong 25th February, 1992	HK$100	100%	Inactive
Emperor Entertainment Group (Taiwan) Limited	British Virgin Islands 8th January, 1999	US$1	100%	Trading and production of audio-visual products and providing agency services
Emperor Entertainment Limited 英皇娛樂有限公司	Hong Kong 22nd February, 1999	HK$2	100%	Trading and production of audio-visual products and providing artiste management services
Emperor Production Limited 英皇演出有限公司	Hong Kong 19th March, 1999	HK$2	100%	Investment holding

Name of company	Place and date of incorporation	Issued and fully paid share capital	Attributable equity interest of the Group	Principal activities
Subsidiaries				
Expert Help Profits Limited	British Virgin Islands 8th March, 2000	US$3	100%	Investment holding
Fitto Entertainment Company Limited 飛圖娛樂有限公司	Hong Kong 19th August, 1986	HK$10,000,000	100%	Investment holding, trading and production of audio-visual products and providing artiste management services
Fitto Publishing Company Limited 飛圖版權有限公司	Hong Kong 23rd July, 1991	HK$2	100%	Licensing of musical works
Gold Velvet Limited 鉅光有限公司	Hong Kong 5th March, 1999	HK$2	100%	Signing agent for song distribution
Mile Oak Profits Limited	British Virgin Islands 7th March, 2000	US$5	100%	Investment holding
Music Plus Limited 音樂家有限公司	Hong Kong 3rd January, 2000	HK$2	100%	Inactive
Windmill Limited 詠駿有限公司	Hong Kong 13th October, 1999	HK$2	100%	Signing agent for organising events
Yes Records Limited	Hong Kong 23rd July, 1991	HK$2	100%	Tenancy signing agent
Associates				
eFoodland Limited 大中華飲食娛樂網有限公司	Hong Kong 27th August, 1999	HK$100	20%	Internet website operation
eStardream Limited 星夢網有限公司	Hong Kong 8th December, 1999	HK$100	50%	Internet website operation

Except for Mile Oak Profits Limited which is directly held by the Company, all other companies are indirectly held.

No audited financial statements have been prepared for the Company since its incorporation as the Company has not carried on any business, except for the transactions relating to the Reorganisation referred to herein, since that date. We have, however, reviewed all relevant transactions relating to the Company since its incorporation.

For the purpose of this report, we have examined the audited financial statements of all the other companies comprising the Group for the years/period referred to in this report in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Society of Accountants. We have acted as auditors of all the companies now comprising the Group for the years/period referred to in this report or since their respective dates of incorporation where this is a shorter period except that the financial statements of Emperor Brilliant Limited for each of the two years ended 31st March, 2000 were audited by Messrs. Yeung & Cheuk, a firm of Certified Public Accountants in Hong Kong.

The summaries of the combined results of the Group for each of the two years ended 31st March, 2000 and the three month period ended 30th June, 2000 and of the combined net liabilities of the Group as at 30th June, 2000 (the "Summaries") set out in this report have been prepared based on the audited financial statements of the companies comprising the Group, on the basis set out in Section 1 below, after making such adjustments as we consider appropriate for the purpose of preparing our report for inclusion in the Prospectus.

In our opinion, on the basis of presentation set out in Section 1 below, the Summaries together with the notes thereon give, for the purpose of this report, a true and fair view of the combined results of the Group for each of the two years ended 31st March, 2000 and the three month period ended 30th June, 2000 and of the combined net liabilities of the Group as at 30th June, 2000.

1. BASIS OF PREPARATION

The summary of combined results of the Group for each of the two years ended 31st March, 2000 and the three month period ended 30th June, 2000 includes the results of the companies comprising the Group for the periods under review as if the current group structure has been in existence throughout the relevant periods or since their respective dates of incorporation where there is a shorter period.

The summary of the combined net liabilities of the Group as at 30th June, 2000 has been prepared to present the assets and liabilities of the Group at that date.

All significant transactions and balances between companies now comprising the Group have been eliminated on combination.

The financial information has been prepared on a going concern basis as the amount due to Questrel Holdings Limited, the Company's ultimate holding company, of approximately HK$91,163,000 has been capitalised subsequent to 30th June, 2000 and Questrel Holdings Limited has confirmed that it will continue to provide financial support to the Company. Details of the capitalisation are set out in Section 7 below.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies which have been adopted by the Group in arriving at the financial information set out in this report, and which conform with accounting principles generally accepted in Hong Kong, are as follows:

Turnover

Turnover represents the aggregate of net amounts received and receivable from albums sold, musical work licensed, event production completed and services provided.

Revenue recognition

Sale of albums is recognised when the albums are delivered and the title has passed.

Licence income is recognised on an accrual basis in accordance with the terms of the relevant agreements.

Artiste management fee income is recognised when the services are provided.

Income from event production is recognised when the events are completed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Rental income is recognised on a straight line basis over the lease terms.

Associates

Associates are companies, other than subsidiaries, in which the Group has a long-term equity interest and over which the Group is in a position to exercise significant influence in management, including the participation in the financial and operating policy decisions.

The combined results includes the Group's share of the results of its associates for the year/period. In the combined net liabilities, interests in associates are stated at the Group's share of the net assets/liabilities of the associates.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account the estimated residual value, using the straight line method at the following rates per annum:

Leasehold improvements	Over the relevant lease terms
Computer equipment	$33\frac{1}{3}\%$
Furniture and fixtures	20%
Office equipment	20%
Motor vehicles	20%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the relevant leases.

Assets held under hire purchase contracts are depreciated over their estimated useful lives on the same basis as owned assets.

Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases and hire purchase contracts are capitalised at their fair value at the date of acquisition. The principal portion of the corresponding commitments is shown as an obligation of the Group. Finance costs, which represent the difference between the total commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant leases and contracts so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight line basis over the relevant lease term.

Inventories and record masters

Inventories represent finished goods of audio-visual products and are stated at the lower of cost and net realisable value. Cost of finished goods is calculated using the first-in, first-out method.

Record masters represent accumulated costs incurred in the production of master tapes of which the relevant audio-visual products are not yet released as at the balance sheet date. The amount recognised as an asset is amortised over the estimated life of the record performance using a method that reasonably relates the amount to the net revenue expected to be realised.

Taxation

The charge for taxation is based on the results for the year/period after adjusting for items which are non-assessable or disallowed. Certain items of income and expense are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Foreign currencies

Transactions in foreign currencies are translated at the approximate rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

3. RESULTS

The following is a summary of the combined results of the Group for each of the two years ended 31st March, 2000 and the three months ended 30th June, 2000 prepared on the basis set out in Section 1 above:

	Notes	Year ended 31st March, 1999 HK$'000	2000 HK$'000	Three months ended 30th June, 2000 HK$'000
Turnover	(a)	12,253	52,082	21,929
Other revenue		1,400	2,071	482
Cost of music production and distribution		(15,727)	(52,389)	(15,117)
Cost of self-organised events		—	(1,852)	—
Distribution costs		(4,707)	(5,956)	(1,536)
Administrative expenses		(13,072)	(21,528)	(7,025)
Loss from operations	(b)	(19,853)	(27,572)	(1,267)
Finance costs	(c)	(96)	(41)	(10)
Share of results of associates		—	(15)	(221)
Loss before taxation		(19,949)	(27,628)	(1,498)
Taxation	(d)	—	(5)	—
Loss for the year/period		(19,949)	(27,633)	(1,498)
Dividends	(e)	—	—	—

Notes:

(a) **Turnover**

	Year ended 31st March,		Three months ended
	1999	**2000**	**30th June, 2000**
	HK$'000	*HK$'000*	*HK$'000*
An analysis of turnover is as follows:			
Music production and distribution			
– sale of albums	9,690	38,016	14,688
– licence income	1,010	6,429	1,434
	10,700	44,445	16,122
Artiste management fee income	1,553	5,151	5,807
Event production			
– gross revenue from self-organised events	—	2,198	—
– share of net income from jointly organised events	—	288	—
	—	2,486	—
	12,253	52,082	21,929

(b) **Loss from operations**

	Year ended 31st March,		Three months ended
	1999	2000	30th June, 2000
	HK$'000	*HK$'000*	*HK$'000*
Loss from operations has been arrived at after charging:			
Directors' remuneration	471	2,400	736
Retirement benefits scheme contribution	193	8	3
Other staff costs	7,563	10,806	4,258
Total staff costs	8,227	13,214	4,997
Auditors' remuneration			
– current year/period	84	199	149
– underprovision in prior year/period	31	—	—
Depreciation			
– owned assets	382	1,289	214
– assets held under finance leases and hire purchase contracts	75	269	34
Loss on disposal of property, plant and equipment	180	43	—
Operating lease rental expenses in respect of rented premises	1,551	1,849	362
Provision for bad and doubtful debts	817	1,377	—
and after crediting:			
Interest income	160	91	95
Rental income	436	191	—

(c) **Finance costs**

	Year ended 31st March,		Three months ended
	1999	2000	30th June, 2000
	HK$'000	*HK$'000*	*HK$'000*
Interest on:			
– obligations under finance leases and hire purchase contracts	46	41	10
– other borrowings	50	—	—
	96	41	10

(d) **Taxation**

No provision for Hong Kong Profits Tax was made as the Group had no assessable profits during the year/period covered in this report. The tax charge for the year ended 31st March, 2000 represented underprovision of tax in previous years.

The Group is not subject to taxation in any other jurisdictions in which it operates.

The Group did not have any significant deferred taxation in respect of each of the periods referred to in this report.

(e) **Dividends**

During the year ended 31st March, 1999, Fitto Publishing Company Limited declared an interim dividend amounting to HK$290,989 to its holding company, Fitto Entertainment Company Limited, which was eliminated on combination.

Other than as set out above, no dividends have been paid or declared by the Company or any of its subsidiaries since their incorporation.

(f) **Loss per share**

No loss per share is presented as its inclusion, for the purpose of this report, is not considered meaningful.

(g) **Directors' remuneration and highest paid employees**

Directors

Details of the emoluments paid by the Group to the directors for each of the periods referred to in this report are as follows:

	Year ended 31st March,		Three months ended
	1999	2000	30th June, 2000
	HK$'000	*HK$'000*	*HK$'000*
Fees	—	—	—
Salaries and other benefits	471	2,400	736
Bonuses	—	—	—
Retirement benefits scheme contribution	—	—	—
	471	2,400	736

One director received emoluments of approximately HK$471,000, approximately HK$2,400,000 and approximately HK$600,000 for the years ended 31st March, 1999 and 31st March, 2000 and for the three month period ended 30th June, 2000 respectively. Another director received emoluments of approximately HK$136,000 for the three month period ended 30th June, 2000.

During each of the periods referred to in this report, no emoluments were paid by the Group to these directors as an inducement to join or upon joining the Group or as compensation for loss of office and no director had waived any emoluments.

Employees

The five highest paid individuals of the Group included one director for each of the periods referred to in this report, details of whose emoluments are set out above. The emoluments of the remaining four highest paid employees for each of the periods referred to in this report are as follows:

	Year ended 31st March,		Three months ended
	1999	2000	30th June, 2000
	HK$'000	*HK$'000*	*HK$'000*
Salaries and other benefits	2,088	2,639	900
Bonuses	—	—	—
Retirement benefits scheme contribution	117	—	—
	2,205	2,639	900

Emoluments of the employees were within the following bands:

	Year ended 31st March,		Three months ended
	1999	2000	30th June, 2000
	HK$'000	*HK$'000*	*HK$'000*
Nil – HK$1,000,000	3	4	4
HK$1,000,001 to HK$1,500,000	1	—	—

During each of the periods referred to in this report, no emoluments were paid by the Group to the five highest paid individuals (including directors of the Company and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

(h) **Pension scheme**

The Group operates a defined contribution retirement benefits scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group in funds under the control of the independent trustees.

The cost charged to the income statement represented contributions payable to the funds by the Group at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions payable by the Group in the future years are reduced by the amount of forfeited contributions.

The retirement benefits scheme contributions for the years ended 31st March, 1999 and 31st March, 2000 and for the three months period ended 30th June, 2000 were reduced by the forfeited contributions of nil, approximately HK$133,000 and approximately HK$50,000 respectively. The amount of unutilised forfeited contributions as at 31st March, 1999, 31st March, 2000 and 30th June, 2000 is nil, approximately HK$50,000 and approximately HK$28,000 respectively.

(i) **Related party transactions**

On 26th April, 1999, two wholly-owned subsidiaries of the Company (collectively the "EEG Companies") jointly entered into a licence agreement with Glorious Twelfth Holdings Limited ("Glorious Twelfth"), a then indirect wholly-owned subsidiary of Questrel Holdings Limited, and another licence agreement with Record Breakers Limited ("Record Breakers"), also a then indirect wholly-owned subsidiary of Questrel Holdings Limited, under which Glorious Twelfth and Record Breakers were collectively granted the Internet streaming rights, being the right to exhibit or broadcast on the Internet, of all song recordings (both in audio and audio-visual format) owned by the EEG Companies and all song recordings (both in audio and audio-visual format) produced or to be produced and owned by the EEG Companies within the period from 26th April, 1999 to 31st December, 2003 for a consideration of HK$1 under each agreement. Both Glorious Twelfth and Record Breakers are entitled to enjoy the relevant Internet streaming rights up to 25th April, 2049. Questrel Holdings Limited is the ultimate holding company of the Company

On 26th April, 1999, a wholly-owned subsidiary of the Company together with its former holding company, an indirect non wholly-owned subsidiary of Questrel Holdings Limited, (collectively the "Fitto Companies") jointly entered into a licence agreement with Glorious Twelfth and another licence agreement with Record Breakers, under which Glorious Twelfth and Record Breakers were collectively granted the Internet streaming rights of all song recordings (both in audio and audio-visual format) owned by the Fitto Companies and all song recordings (both in audio and audio-visual format) produced and to be produced and owned by the Fitto Companies within the period from 26th April, 1999 to 31st December, 2003 for a consideration of HK$1 under each agreement. Both Glorious Twelfth and Record Breakers are entitled to enjoy the relevant Internet streaming rights up to 25th April, 2049.

On 30th June, 2000, part of the advances from the ultimate holding company in the amount of HK$75,000,000 was waived by the ultimate holding company as part of the Reorganisation.

In addition, during the periods referred to in this report, the Group had transactions with related parties as follows:

		Year ended 31st March,		Three months ended
		1999	2000	30th June, 2000
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Administration fees paid	*(i)*	276	216	90
Rental paid	*(ii)*	386	464	39
Advertising and promotion expenses paid	*(ii)*	169	276	50
Management fee received	*(iii)*	—	75	—
Rental received	*(iii)*	436	191	—

Notes:

(i) The administration fees were charged on actual allocation cost basis.

(ii) The rental expenses and advertising and promotion expenses were charged with reference to comparable market prices.

(iii) The management fee and rental income were charged on actual allocation cost basis.

(iv) The related parties and the Group were under the control of a common shareholder, Mr. Yeung Sau Shing, Albert.

(v) In the opinion of the directors of the Company, the above transactions were carried out in the usual course of business and in accordance with the pricing policies of the Group. The transactions will continue following the listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

4. NET LIABILITIES

The following is a summary of the combined net liabilities of the Group as at 30th June, 2000, prepared on the basis set out in Section 1 above:

	Notes	*HK$'000*	*HK$'000*
Non-current assets			
Property, plant and equipment	*(a)*		2,454
Interests in associates	*(b)*		205
Prepayments and other receivables	*(c)*		16,556
Current assets			
Inventories and record masters	*(d)*	2,666	
Trade receivables		12,355	
Prepayments and other receivables	*(c)*	16,910	
Taxation recoverable		13	
Bank balances and cash		12,868	
		44,812	
Current liabilities			
Trade payables		(11,689)	
Other payables and accrual charges		(17,075)	
Obligations under finance leases and hire purchase contracts – amount due within one year	*(e)*	(93)	
		(28,857)	
Net current assets			15,955
Total assets less current liabilities			35,170
Non-current liabilities			
Amount due to ultimate holding company	*(f)*		(110,694)
Obligations under finance leases and hire purchase contracts – amount due after one year	*(e)*		(28)
Net liabilities	*(j)*		(75,552)

Notes:

(a) **Property, plant and equipment**

	Cost	Accumulated depreciation	Net book value
	HK$'000	*HK$'000*	*HK$'000*
Leasehold improvements	1,562	692	870
Computer equipment	1,455	574	881
Furniture and fixtures	760	398	362
Office equipment	2,023	1,918	105
Motor vehicles	673	437	236
	6,473	4,019	2,454

(b) **Interests in associates**

	HK$'000
Share of net liabilities of associates	(236)
Amounts due from associates	441
	205

Share of net liabilities of associates by the Group represents the Group's obligations to make good losses incurred by the associates.

The amounts due from associates are unsecured and non-interest bearing. Repayment will be made only after the Group's share of losses in relevant associates are made good. The amounts are therefore shown as non-current assets.

(c) **Prepayments and other receivables**

	HK$'000
Prepaid artiste fees	24,267
Other receivables	9,199
	33,466
Analysed as:	
Non-current portion	16,556
Current portion	16,910
	33,466

The amount of prepaid artiste fees that is expected to be recouped by 30th June, 2001 is classified as current assets. The amount that is expected to be recouped beyond 30th June, 2001 is classified as non-current assets. Should the directors consider that the future recoupable amount of a particular artiste is less than the balance of the artiste fees prepaid to that artiste, the extent of shortfall will be charged to the income statement immediately.

(d) **Inventories and record masters**

	HK$'000
Record masters	2,191
Finished goods	475
	2,666

At 30th June, 2000, the amounts are stated at cost.

(e) **Obligations under finance leases and hire purchase contracts**

	HK$'000
The maturity of obligations under finance leases and hire purchase contracts is analysed as follows:	
Within one year	93
More than one year but not exceeding two years	28
Total	121
Less: Amount due within one year shown under current liabilities	(93)
Amount due after one year	28

(f) **Amount due to ultimate holding company**

The amount is unsecured and non-interest bearing. An amount of approximately HK$91,163,000 has been capitalised subsequent to 30th June, 2000. Details of the capitalisation are set out in Section 7 below.

Had interest been charged at prevailing market rates on the amount due to the ultimate holding company, the interest expenses for the years ended 31st March, 1999 and 31st March, 2000 and for the three month period ended 30th June, 2000 would be approximately HK$14,173,000, approximately HK$16,640,000 and approximately HK$5,594,000 respectively.

(g) **Operating lease commitments**

At 30th June, 2000, the Group was committed to pay approximately HK$1,474,000 within the following year under non-cancellable operating leases in respect of rented premises which expire in the second to fifth years inclusive.

(h) **Other commitment**

At 30th June, 2000, the Group was committed to pay an aggregate sum of approximately HK$14,200,000 in respect of artiste fees.

(i) **Distributable reserves**

At 30th June, 2000, the Company had not been incorporated and hence there was no reserve available for distribution to its shareholders at that date.

(j) **Net liabilities of the Company**

The Company was incorporated on 17th October, 2000. On the basis set out in Section 1 above, the net liabilities of the Company as at 30th June, 2000 were approximately HK$75,552,000.

5. RESERVE MOVEMENT

On 30th June, 2000, part of the advances from the ultimate holding company in the amount of HK$75,000,000 was waived by the ultimate holding company as part of the Reorganisation resulting in the creation of a special reserve of HK$75,000,000.

6. ULTIMATE HOLDING COMPANY

The directors of the Company consider Questrel Holdings Limited, a company incorporated in the British Virgin Islands, to be the ultimate holding company of the Company.

7. SUBSEQUENT EVENTS

Subsequent to 30th June, 2000, in preparation of the listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the companies comprising the Group underwent a reorganisation to rationalise the group structure. As a result of the Reorganisation, the Company became the holding company of the Group on 30th November, 2000. The details of this reorganisation and other changes, including the capitalisation of an amount of approximately HK$91,163,000 due to the ultimate holding company, are set out in the paragraph headed "Group reorganisation" in appendix V of the Prospectus.

8. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for any companies in the Group in respect of any period subsequent to 30th June, 2000.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The forecast of the combined profit after taxation but before extraordinary items of the Group for the year ending 31st March, 2001 is set out in the sub-section headed ''Profit forecast'' in the section headed ''Financial information'' of this prospectus.

(1) BASES AND ASSUMPTIONS

The Directors have prepared the forecast of the combined profit after taxation but before extraordinary items of the Group for the year ending 31st March, 2001 based on the audited combined results of the Group for the three months ended 30th June, 2000, the unaudited combined management accounts of the Group for the four months ended 31st October, 2000 and a forecast of the combined results of the Group for the remaining five months ending 31st March, 2001. The Directors are not aware of, nor do they expect, any extraordinary items which have arisen or are likely to arise in respect of the year ending 31st March, 2001. The forecast has been prepared on the basis of accounting policies consistent in all material respects with those currently adopted by the Group, as summarised in the accountants' report, the text of which is set out in appendix I to this prospectus.

The Directors have adopted the following principal assumptions in the preparation of the profit forecast:

(a) there will be no material changes in existing government policies or political, legal (including changes in legislation or regulations or rules), fiscal or economic conditions in the respective countries or industry in which the Group operates;

(b) there will be no significant fluctuations in currency exchange rates, interest rates and tariffs and duties from those presently prevailing; and

(c) there will be no material changes in the bases or rates of taxation applicable to the Group in the respective jurisdictions in which it operates.

(2) LETTERS

Set out below are the texts of letters received by the Directors from Deloitte Touche Tohmatsu, the auditors and reporting accountants of the Company, and from the Sponsor, in connection with the forecast of the combined profit after taxation but before extraordinary items of the Group for the year ending 31st March, 2001, for the purpose of incorporation in this prospectus.

1. Letter from Deloitte Touche Tohmatsu

德勤・關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

Deloitte
Touche
Tohmatsu

8th December, 2000

The Directors
Emperor Entertainment Group Limited
BNP Paribas Peregrine Capital Limited

Dear Sirs,

We have reviewed the accounting policies adopted and calculations made in arriving at the forecast of the combined profit after taxation but before extraordinary items of Emperor Entertainment Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ending 31st March, 2001, for which the Directors of the Company are solely responsible, as set out in the prospectus dated 8th December issued by the Company (the "Forecast"). The Forecast is prepared based on the audited results of the Group for the three months ended 30th June, 2000, the results shown in the unaudited management accounts of the Group for the four months ended 31st October, 2000, and a forecast of the results for the remaining five months of the financial year ending 31st March, 2001.

In our opinion, the Forecast, so far as the accounting policies and calculations are concerned, has been properly compiled on the basis of the assumptions made by the Directors of the Company as set out in section (1) of appendix II of the above-mentioned prospectus and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants' report dated 8th December, 2000.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

2. Letter from the Sponsor

BNP PARIBAS PEREGRINE

8th December, 2000

The directors
Emperor Entertainment Group Limited
28th Floor
Emperor Group Centre
288 Hennessy Road
Wanchai
Hong Kong

Dear Sirs,

We refer to the forecast of the combined profit after taxation but before extraordinary items of Emperor Entertainment Group Limited (the "Company") and its subsidiaries for the year ending 31st March, 2001 (the "Forecast") as set out in the prospectus of the Company dated 8th December, 2000.

We have discussed with you the bases and assumptions upon which the Forecast has been made. We have also considered the letter dated 8th December, 2000 addressed to you and us from Deloitte Touche Tohmatsu regarding the accounting policies and calculations upon which the Forecast has been made.

On the basis of the foregoing, the bases and assumptions made by you and the accounting policies and calculations reviewed by Deloitte Touche Tohmatsu, we have formed the opinion that the Forecast, for which you as directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
BNP Paribas Peregrine Capital Limited
Isadora Li
Deputy Managing Director

BNP PARIBAS Equities

BNP Paribas Peregrine Capital Limited
36/F., Asia Pacific Finance Tower, 3 Garden Road, Central, Hong Kong

The following is the text of a letter, summary of values and valuation certificate, prepared for the purpose of incorporation in this prospectus, received from Chesterton Petty Limited, an independent property valuer, in connection with its valuation as at 30th September, 2000 of the property interests of the Group.



International Property Consultants

Chesterton Petty Ltd
16th Floor, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

8th December, 2000

The Directors
Emperor Entertainment Group Limited
28th Floor
Emperor Group Centre
288 Hennessy Road
Wanchai, Hong Kong

Dear Sirs,

In accordance with your instructions for us to value the property interests held by Emperor Entertainment Group Limited (the "Company") or its subsidiaries (collectively the "Group"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the open market values of these property interests as at 30th September, 2000.

Our valuation is our opinion of the open market value which we would define as intended to mean "the best price at which the sale of an interest in a property would have been completed unconditionally for cash consideration on the date of valuation assuming:

(a) a willing seller;

(b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;

(c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;

(d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and

(e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion''.

Our valuation has been made on the assumption that the owners sell the property interests on the open market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the values of the property interests. In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the property interests and no forced sale situation in any manner is assumed in our valuation.

The property interests are leasehold interests or interests held by the Group under licences and are assigned no commercial values mainly due to their short term nature, the prohibition against assignment or the lack of substantial profit rents.

We have been provided with copies of tenancy agreements or licence agreements for the property interests and we have caused land searches to be made. We have not, however, scrutinised the original documents to verify ownership or to ascertain the existence of any amendment which does not appear on the copies handed to us.

We have relied to a very considerable extent on information given by you and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, lettings, floor areas and other relevant matters. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us and are therefore only approximations.

We have inspected the exterior of the properties valued and, where possible, we have also inspected the interior of the premises. In the course of our inspections, we did not note any serious defect. However, no structural survey has been made and we are therefore unable to report whether the properties are free from rot, infestation or other structural defects. No tests were carried out on any of the services.

No allowance has been made in our report for any charge, mortgage or amount owing on the property interests nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

We enclose herewith our summary of values and valuation certificate.

Yours faithfully
For and on behalf of
Chesterton Petty Limited
Charles C K Chan
MSc ARICS FHKIS MCIArb RPS(GP)
Executive Director

SUMMARY OF VALUES

	Property	Open market value in existing state as at 30th September, 2000
Properties leased or licensed by the Group		
1.	Unit B on 4th Floor, Kwok Kee Group Centre, 107 How Ming Street, Kwun Tong, Kowloon, Hong Kong	No commercial value
2.	Unit 2001 on 20th Floor, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong	No commercial value
3.	Portion of 27th Floor, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong	No commercial value
4.	Portion of 27th Floor, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong	No commercial value
5.	A carparking space on Basement 2, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong	No commercial value
6.	Carpark Nos. 24 and 24A on Ground Floor, Kwong Sang Hong Building, Blocks CD, Wanchai, Hong Kong	No commercial value
7.	Unit 4 on 3rd Floor, No. 13, Lane 16, Ta-An Road Section 1, Taipei, Taiwan	No commercial value
8.	1st Floor, No. 49, Lane 161, Tun-Hwa South Road Section 1, Taipei, Taiwan	No commercial value
	Total:	No commercial value

VALUATION CERTIFICATE

Properties leased or licensed by the Group

Property	Description and tenancy particulars	Particulars of occupancy	Open market value in existing state as at 30th September, 2000
1. Unit B on 4th Floor, Kwok Kee Group Centre, 107 How Ming Street, Kwun Tong, Kowloon, Hong Kong	Kwok Kee Group Centre is a 9-storey industrial building with ancillary car parking facilities completed in 1973. The property comprises an industrial unit on the 4th Floor of the building with a saleable area of 304.63 sq.m. (3,279 sq.ft.) or thereabouts. The property is held by the Group under a tenancy agreement for a term commencing from 1st March, 2000 to 28th February, 2002 at a monthly rent of HK$20,500 exclusive of rates and management fee.	The property is occupied by the Group as a warehouse.	No commercial value
2. Unit 2001 on 20th Floor, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong	Emperor Group Centre is a 30-storey (inclusive of two basement levels) commercial building completed in 1994. The property comprises an office unit on the 20th Floor of the building with a saleable area of 141.68 sq.m. (1,525 sq.ft.) or thereabouts. The property is held by the Group under a tenancy agreement for a term commencing from 12th September, 2000 to 11th September, 2002 at a monthly rent of HK$32,500 exclusive of rates and management fee.	The property is occupied by the Group as an office.	No commercial value

Property	Description and tenancy particulars	Particulars of occupancy	Open market value in existing state as at 30th September, 2000
3. Portion of 27th Floor, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong	Emperor Group Centre is a 30-storey (inclusive of two basement levels) commercial building completed in 1994. The property comprises a portion of the office on the 27th Floor of the building with a saleable area of 368.91 sq.m. (3,971 sq.ft.) or thereabouts. The property is held by the Group under a sub-tenancy agreement for a term commencing from 11th October, 1999 to 19th January, 2003 at a current monthly rent of HK$89,588 exclusive of rates and management fee.	The property is occupied by the Group as an office.	No commercial value
4. Portion of 27th Floor, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong	Emperor Group Centre is a 30-storey (inclusive of two basement levels) commercial building completed in 1994. The property comprises a portion of the office on the 27th Floor of the building with a saleable area of 62.24 sq.m. (670 sq.ft.) or thereabouts. The property is held by the Group under a sub-tenancy agreement for a term commencing from 8th May, 2000 to 19th January, 2003 at a monthly rent of HK$15,121 exclusive of rates and management fee.	The property is occupied by the Group as an office.	No commercial value

Property	Description and tenancy particulars	Particulars of occupancy	Open market value in existing state as at 30th September, 2000
5. A carparking space on Basement 2, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong	Emperor Group Centre is a 30-storey (inclusive of two basement levels) commercial building completed in 1994. The property comprises one carparking space on the B2 Floor of the building. The property is held by the Group under a licence agreement on monthly basis at a current monthly licence fee of HK$3,600 inclusive of rates and management fee.	The property is occupied by the Group as a carpark.	No commercial value
6. Carpark Nos. 24 and 24A on Ground Floor, Kwong Sang Hong Building, Blocks CD, Wanchai, Hong Kong	Kwong Sang Hong Building Blocks CD comprises two residential blocks built over a 5-storey (including basement) commercial and carparking podium completed in 1980. The property comprises one twin carparking space on the Ground Floor of the building. The property is held by the Group under a licence agreement on monthly basis at a current monthly licence fee of HK$4,800 inclusive of rates and management fee.	The property is occupied by the Group for carparking purposes.	No commercial value

Property	Description and tenancy particulars	Particulars of occupancy	Open market value in existing state as at 30th September, 2000
7. Unit 4 on 3rd Floor, No. 13, Lane 16, Ta-An Road Section 1, Taipei, Taiwan	The subject building is a 9-storey residential building completed in about 1999. The property comprises a unit on the 3rd Floor of the building with a saleable area of 25.92 sq.m. (279 sq.ft.) or thereabouts. The property is held by the Group under a tenancy agreement for a term commencing from 20th July, 2000 to 19th July, 2001 at a monthly rent of NT$25,000 exclusive of property tax, service charges and management fee.	The property is occupied by the Group as staff quarters.	No commercial value
8. 1st Floor, No. 49, Lane 161, Tun-Hwa South Road Section 1, Taipei, Taiwan	The subject building is a 4-storey office/residential building completed in about 1984. The property comprises the whole of the 1st Floor of the building with a saleable area of 121.14 sq.m. (1,304 sq.ft.) or thereabouts. The property is held by the Group under a tenancy agreement for a term commencing from 16th July, 1999 to 15th July, 2002 at a monthly rent of NT$51,000 exclusive of property tax and service charges.	The property is occupied by the Group as an office.	No commercial value

Set out below is a summary of certain provisions of the memorandum of association (the "Memorandum of Association") and Bye-laws and of certain aspects of Bermuda company law.

CONSTITUTION OF THE COMPANY

1. MEMORANDUM OF ASSOCIATION

The Memorandum of Association states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the Company is an exempted company as defined in the Companies Act. The Memorandum of Association also sets out the objects for which the Company was formed, including acting as a holding and investment company, and its powers, including the powers set out in the First Schedule to the Companies Act, excluding paragraph 8 thereof. As an exempted company, the Company will be carrying on business outside Bermuda from a place of business within Bermuda.

In accordance with and subject to section 42A of the Companies Act, the Memorandum of Association empowers the Company to purchase its own shares and pursuant to its Bye-laws, this power is exercisable by the board of directors of the Company ("the Board") upon such terms and subject to such conditions as it thinks fit.

2. BYE-LAWS

The Bye-laws were adopted on 30th November, 2000. The following is a summary of certain provisions of the Bye-laws.

A. Directors

(a) *Power to allot and issue shares and warrants*

Subject to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regards to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Subject to the Companies Act, any preference share may be issued or converted into shares that are liable to be redeemed, at a determinable date or at the option of the Company or, if so authorised by the Memorandum of Association, at the option of the holder, on such terms and in such manner as the Company before the issue or conversion may by ordinary resolution determine. The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Act, the Bye-laws and, where applicable, the rules of any Designated Stock Exchange (as defined in the Bye-laws) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion think fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members of any purpose whatsoever.

(b) *Power to dispose of the assets of the Company or any of its subsidiaries*

There are no specific provisions in the Bye-laws relating to the disposal of the assets of the Company or any its subsidiaries.

Note: The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Bye-laws or the Companies Act to be exercised or done by the Company in general meeting.

(c) *Compensation or payments for loss of office*

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(d) *Loans and provision of security for loans to Directors*

There are no provisions in the Bye-laws relating to the making of loans to Directors. However, the Companies Act contains restrictions on companies making loans or providing security for loans to their directors, the relevant provisions of which are summarized in the paragraph headed "Bermuda Company Law" in this Appendix.

(e) *Financial assistance to purchase shares of the Company*

Neither the Company nor any of its subsidiaries shall directly or indirectly give financial assistance to a person who is acquiring or proposing to acquire shares in the Company for the purpose of that acquisition whether before or at the same time as the acquisition takes place or afterwards, provided that the Bye-laws shall not prohibit transactions permitted under the Companies Act.

(f) *Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of auditor of the Company) in conjunction with his office of Director for such period and, subject to the Companies Act, upon such terms as the board may determine, and may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Bye-laws. A Director may be or become a director or other officer of, or a member of, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or form his interest in, such other company. Subject as otherwise provided by the Bye-laws, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Act and to the Bye-laws, no Director or proposed or intending Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board in respect if any contract or arrangement or other proposal in which he is to his knowledge materially interested but this prohibition shall not apply to any of the following matters, namely:

(i) any contract or arrangement for giving of any security or indemnity to the Director in respect of money lent or obligations incurred or undertaken by him at the request of or for the benefit of the Company or any of its subsidiaries;

(ii) any contract or arrangement for the giving by the Company of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director has himself assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(iii) any contract or arrangement concerning an offer of the shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director is or is to be interested as a participant in the underwriting or sub-underwriting of the offer;

(iv) any contract or arrangement in which the Director is interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his interest in shares or debentures or other securities of the Company;

(v) any contract or arrangement concerning any other company in which he is interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director together with any of his associates (as defined by the rules, where applicable, of any Designed Stock Exchange (as defined in the Bye-laws)) is beneficially interested in 5% or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest is derived); or

(vi) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.

(g) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such remuneration (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably incurred or excepted to be incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by requests goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Directors may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration provided for by or pursuant to any other Bye-law. A Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies oaths Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(h) *Retirement, appointment and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, than the number nearest to but not greater than one third) will retire from office by rotation provided that no Director holding office as chairman and/or managing director shall be subject to retirement by rotation, or be taken into account in determining the number of Directors to retire. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Note: There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or, subject to authorisation by the members in general meeting, as an addition to the existing board but so that the number of Directors so appointed shall not exceed any maximum number determined from time to time by the members in general meeting. Any Director so appointed shall hold office only until the next annual general meeting of the Company and shall then be eligible for re-election at the meeting. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by a special resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) provided that the notice of any such meeting convened for the purpose of removing a Director shall contain a statement of the intention to do so and be served on such Director 14 days before the meeting and, at such meeting, such Director shall be entitled to be heard on the motion for his removal. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors unless otherwise determined from time to time by members of the Company.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period (subject to their continuance as Directors) and upon such terms as the board may determine and the board may revoke or terminate any of such appointments (but without prejudice to any claim for damages that such Director may have against the Company or vice versa). The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(i) *Borrowing powers*

The board may from time to time at its discretion exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Act, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Bye-laws in general, can be varied with the sanction of a special resolution of the Company.

B. Alterations to constitutional documents

The Bye-laws may be rescinded, altered or amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association, to confirm any such rescission, alteration or amendment to the Bye-laws or to change the name of the Company.

C. Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Act:

(a) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

(b) consolidate and divide all or any of its capital into shares of large amount than its existing shares;

(c) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares as the directors may determine;

(d) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association;

(e) change the currency denomination of its share capital;

(f) make provision for the issue and allotment of shares which do not carry any voting rights; and

(g) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may, by special resolution, subject to any confirmation or consent required by law, reduce its authorised or issued share capital or any share premium account or other undistributable reserve in any manner permitted by law.

D. Variation of rights of existing shares or classes of shares

Subject to the Companies Act, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Bye-laws relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons (or in the case of a member being a corporation, its duly authorised representative) holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person (or in the case of a member being a corporation, its duly authorised representative) or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of shares of the class present in person or by proxy may demand a poll.

E. Special resolution-majority required

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear day's notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 clear day's notice has been given.

F. Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Bye-laws, at any general meeting on a show of hands, every member who is present in person (or being a corporation, is present by its duly authorised representative) or by proxy shall have one vote and on poll every member present in person or by proxy or, being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share.

Notwithstanding anything contained in the Bye-laws, where more than one proxy is appointed by a member which is a clearing house (as defined in the Bye-laws) (or its nominee), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

G. Requirements for annual general meetings

An annual general meeting of the Company must be held in each year other than year in which its statutory meeting is convened at such time (within a period of not more than 15 months after the holding of the last preceding annual general meeting unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Bye-laws)) and place as may be determined by the board.

H. Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expanded by the Company, and the matters in respect of which such receipt and expenditure take place, and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the provisions of the Companies Act or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or, subject to the Companies Act, at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right of inspecting any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

Subject to the Companies Act, a printed copy of the Directors' report, accompanied by the balance sheet and profit and loss account, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of the Company under convenient heads and a statement of income and expenditure, together with a copy of the auditors' report, shall be sent to each person entitled thereto at least 21 days before the date of the general meeting and laid before the Company in general meeting in accordance with the requirements of the Companies Act provided that this provision shall not require a copy of those documents to be sent to any person whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

Subject to the Companies Act, at the annual general meeting or at a subsequent special general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the members appoint another auditor. Such auditor may be a member but no Director or officer or employee of the Company shall during his continuance in office, be eligible to act as an auditor of the Company. The remuneration of the auditor shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than Bermuda. If the auditing standards of a country or jurisdiction other than Bermuda are used, the financial statements and the report of the auditor should disclose this fact and name such country and jurisdiction.

I. Notices of meetings and business to be conducted thereat

An annual general meeting and any special general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least 21 clear days' notice in writing, and any other special general meeting shall be called by at least 14 clear days' notice (in each case exclusive of the day on which the notice is given of deemed to be given and of the day for which it is given or on which it is to take effect). The notice must specify the time and place of the meeting and, in the case of special business the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such.

J. Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominees(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor of the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in Bermuda or such other place in Bermuda at which the principal register is kept in accordance with the Companies Act.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise an instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Bye-laws) may determine to be payable or such lesser sum as the Directors may from time required is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in an appointed newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Bye-laws), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

K. Power for the Company to purchase its own shares

The Bye-laws supplement the Company's Memorandum of Association (which gives the Company the power to purchase its own shares) by providing that the power is exercisable by the board upon such terms and conditions as it thinks fit.

L. Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Bye-laws relating to ownership of shares in the Company by a subsidiary.

M. Dividends and other methods of distribution

Subject to the Companies Act, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board. The Company in general meeting may also make a distribution to its members out of contributed surplus (as ascertained in accordance with the Companies Act). No dividend shall be paid or distributed out of contributed surplus if doing so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium account.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividend shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to a member by the Company on or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the divided as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

N. Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.

O. Call on shares and forfeiture of shares

Subject to the Bye-laws and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than 14 clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any shares in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forteiture until the date of actual payment at such rate not exceeding 20% per annum as the board determines.

P. Inspection of register of members

The register and branch register of members shall be open for inspection between 10:00 a.m. and 12:00 noon on every business day by members without charge, or by any other person upon a maximum payment of five Bermuda dollars, at the registered office or such other place in Bermuda at which the register is kept in accordance with the Companies Act or, upon a maximum payment of US$10, at the Registration Office (as defined in the Bye-laws), unless the register is closed in accordance with the Companies Act.

Q. Quorum for meetings and separate class meetings

For all purposes the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

R. Rights of the minorities in relation to fraud or oppression

There are no provisions in the Bye-laws relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Bermuda law, as summarised in paragraph 4(e) of this Appendix.

S. Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Act, divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributors shall be compelled to accept any shares or other property in respect of which there is a liability.

T. Untraceable members

The Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Bye-laws) giving notice of its intention to sell such shares and a period of three months, or such shorter period notice as may be permitted by the Designated Stock Exchange (as defined in the Bye-laws), has elapsed since such advertisement and the Designated Stock Exchange (as defined in the Bye-laws) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

U. Other provisions

The Bye-laws provide that to the extent that it is not prohibited by and is in compliance with the Companies Act, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a shares on any exercise of the warrants.

The Bye-laws also provide that the Company is required to maintain at its registered office a register of directors and officers in accordance with the provisions of the Companies Act and such register is open to inspection by members of the public without charge between 10:00 a.m. and 12:00 noon on every business day.

3. VARIATION OF MEMORANDUM OF ASSOCIATION AND BYE-LAWS

The Memorandum of Association may be altered by the Company in general meeting. In certain circumstances, consent to the alteration must be obtained from the Minister of Finance of Bermuda. The Bye-laws may be amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association or to confirm any amendment to the Bye-laws or to change the name of the Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of 21 clear days' notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

4. BERMUDA COMPANY LAW

The Company is incorporated in Bermuda and, therefore, operates subject to Bermuda law. Set out below is a summary of certain provisions of Bermuda company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Bermuda company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

A. Share capital

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account", to which the provisions of the Companies Act relating to a reduction of share capital of the company except that the share premium account may be applied by the company:

(a) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;

(b) in writing off:

  (i) the preliminary expenses of the company; or

  (ii) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; or

(c) in providing for the premiums payable on redemption of any shares or of any debentures of the company.

However, only premiums arising on the same class of shares can be used to pay up bonus shares or in providing for the premiums payable on redemption of shares referred to in (a) and (b) above, respectively.

In the case of an exchange of shares the excess value of the shares acquired over the nominal value of the shares being issued may be credited to a contributed surplus account of the issuing company.

The Companies Act permits a company to issue preference shares subject to the conditions stipulated therein to convert those preference shares into redeemable preference shares.

The Companies Act includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. Where provision is made by the memorandum of association or bye-laws for authorising the variation of rights attached to any class of shares in the company, the consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required, and where no provision for varying such rights is made in the memorandum of association or bye-laws and nothing therein precludes a variation of such rights, the written consent of the holders of three-fourths of the issued shares of that class or the sanction of a resolution passed as aforesaid is required.

B. Financial assistance to purchase shares of a company or its holding company

A company is prohibited from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares unless there are reasonable grounds for believing that the company is, and would after the giving of such financial assistance be, able to pay its liabilities as they become due. In certain circumstances, the prohibition from giving financial assistance may be excluded such as where the assistance is only an incidental part of a larger purpose or the assistance is of an insignificant amount such as the payment of minor costs. In addition, the Companies Act expressly permits the grant of financial assistance where (i) the financial assistance does not reduce the company's net assets or, to the extent the net assets are reduced, such financial assistance is provided for out of funds of the company which would otherwise be available for dividend or distribution; (ii) an affidavit of solvency is sworn by the directors of the company; and (iii) the financial assistance is approved by resolution of shareholders of the company.

C. Purchase of shares and warrants by a company and its subsidiaries

A company may, if authorised by its memorandum of association or bye-laws, purchase its own shares. Such purchases may only be effected out of the capital paid up on the purchased shares or out of the funds of the company otherwise available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose. Any premium payable on a purchase over the par value of the shares to be purchased must be provided for out of funds of the company otherwise available for dividend or distribution or out of the company's share premium account. Any amount due to a shareholder on a purchase by a company of its own shares may (i) be paid in cash; (ii) be satisfied by the transfer of any part of the undertaking or property of the company having the same value; or (iii) be satisfied partly under (i) and partly under (ii). Any purchase by a company of its own shares may be authorised by its board of directors or otherwise by or in accordance with the provisions of its bye-laws. Such purchase may not be made if, on the date on which the purchase is to be effected, there are reasonable grounds for believing that the Company is, or after the purchase would be, unable to pay its liabilities as they become due. The shares so purchased will be treated as cancelled and the company's issued, but not its authorised, capital will be diminished accordingly.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Bermuda law that a company's memorandum of association or its bye-laws contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds. Under Bermuda law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. The holding company is, however, prohibited from giving financial assistance for the purpose of the acquisition, subject to certain circumstances provided by the Companies Act. A company, whether a subsidiary or a holding company, may only purchase its own shares for cancellation if it is authorised to do so in its memorandum of association or bye-laws pursuant to section 42A of the Companies Act.

D. Dividends and distributions

A company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts. Contributed surplus is defined for purposes of section 54 of the Companies Act to include the proceeds arising from donated shares, credits resulting from the redemption or conversion of shares at less than the amount set up as nominal capital and donations of cash and other assets to the company.

E. Protection of minorities

Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. The Bermuda courts, however, would ordinarily be expected to permit a shareholder to commence an action in the name of the-company to remedy a wrong done to the company where the act complained of is alleged to be beyond the corporate power of the company or is illegal or would result in the violation of the company's memorandum of association and bye-laws. Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requires the approval of a greater percentage of the company's shareholders than actually approved it.

Any member of a company who complains that the affairs of the company are being conducted or have been conducted in a manner oppressive or prejudicial to the interests of some part of the members, including himself, may petition the court which may, if it is of the opinion that to wind up the company would unfairly prejudice that part of the members but that otherwise the facts would justify the making of a winding up order in just and equitable grounds, make such order as it thinks fit, whether for regulating the conduct of the company's affairs in the future or for the purchase of shares of any members of the company by other members of the company or by the company itself and in the case of a purchase by the company itself, for the reduction accordingly of the company's capital or otherwise. Bermuda law also provides that the company may be wound up by the Bermuda court, if the court is of the opinion that it is just and equitable to do so. Both these provisions are available to minority shareholders seeking relief from the oppressive conduct of the majority, and the court has wide discretion to make such orders as it thinks fit.

Except as mentioned above, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in Bermuda.

A statutory right of action is conferred on subscribers of shares in a company against persons, including directors and officers, responsible for the issue of a prospectus in respect of damage suffered by reason of an untrue statement therein, but this confers no right of action against the company itself. In addition such company, as opposed to its shareholders, may take action against its officers including directors, for breach of their statutory and fiduciary duty to act honestly and in good faith with a view to the best interests of the company.

F. Management

The Companies Act contains no specific restrictions on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Furthermore, the Companies Act requires that every officer should comply with the Companies Act, regulations passed pursuant to the Companies Act and the bye-laws of the company.

G. Accounting and auditing requirements

The Companies Act requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Furthermore, it requires that a company keeps its records of account at the registered office of the company or, subject to the Companies Act, at such other place as the directors think fit and that such records shall at all times be open to inspection by the directors or the resident representative of the company. If the records of account are kept at some place outside Bermuda, there shall be kept at the office of the company in Bermuda such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each three month period, except that where the company is listed on an appointed stock exchange, there shall be kept such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each six month period.

The Companies Act requires that the directors of the company must, at least once a year, lay before the company in general meeting financial statements for the relevant accounting period. Further, the company's auditor must audit the financial statements so as to enable him to report to the members. Based on the results of his audit, which must be made in accordance with generally accepted auditing standards, the auditor must then make a report to the members. The generally accepted auditing standards may be those of a country or jurisdiction other than Bermuda or such other generally accepted auditing standards as may be appointed by the Minister of Finance of Bermuda under the Companies Act; and where the generally accepted auditing standards used are other than those of Bermuda, the report of the auditor shall identify the generally accepted auditing standards used. All members of the company are entitled to receive a copy of every financial statement prepared in accordance with these requirements, at least seven days before the general meeting of the company at which the financial statements are to be tabled.

H. Auditors

At each annual general meeting, a company must appoint an auditor to hold office until the close of the next annual general meeting; however, this requirement may be waived if all of the shareholders and all of the directors, either in writing or at the general meeting, agree that there shall be no auditor.

A person, other than an incumbent auditor, shall not be capable of being appointed auditor at an annual general meeting unless notice in writing of an intention to nominate that person to the office of auditor has been given not less than 21 days before the annual general meeting. The company must send a copy of such notice to the incumbent auditor and give notice thereof to the members not less than 7 days before the annual general meeting. An incumbent auditor may, however, by notice in writing to the secretary of the company waive the requirements of the foregoing.

Where an auditor is appointed to replace another auditor, the new auditor must seek from the replaced auditor a written statement as to the circumstances of the latter's replacement. If the replaced auditor does not respond within 15 days, the new auditor may act in any event. An appointment as auditor of a person who has not requested a written statement from the replaced auditor is voidable by a resolution of the shareholders at a general meeting. An auditor who has resigned, been removed or whose term of office has expired or is about to expire, or who has vacated office is entitled to attend the general meeting of the company at which he is to be removed or his successor is to be appointed; to receive all notices of, and other communications relating to, that meeting which a member is entitled to receive; and to be heard at that meeting on any part of the business of the meeting that relates to his duties as auditor or former auditor.

I. Exchange control

An exempted company is usually designated as ''non-resident'' for Bermuda exchange control purposes by the Bermuda Monetary Authority. Where a company is so designated, it is free to deal in currencies of countries outside the Bermuda exchange control area which are freely convertible into currencies of any other country. The permission of the Bermuda Monetary Authority is required for the issue of shares and warrants by the company and the subsequent transfer of such shares and warrants. In granting such permission, the Bermuda Monetary Authority accepts no responsibility for the financial soundness of any proposals or for the correctness of any statements made or opinions expressed in any document with regard to such issue. Before the company can issue or transfer any further shares and warrants in excess of the amounts already approved, it must obtain the prior consent of the Bermuda Monetary Authority.

Permission of the Bermuda Monetary Authority will normally be granted for the issue and transfer of shares and warrants to and between persons regarded as resident outside Bermuda for exchange control purposes without specific consent for so long as the shares and warrants are listed on an appointed stock exchange (as defined in the Companies Act). Issues to and transfers involving person regarded as ''resident'' for exchange control purposes in Bermuda will be subject to specific exchange control authorisation.

J. Taxation

Under present Bermuda law, no Bermuda withholding tax on dividends or other distributions, nor any Bermuda tax computed on profits or income or on any capital asset, gain or appreciation will be payable by an exempted company or its operations, nor is there any Bermuda tax in the nature of estate duty or inheritance tax applicable to shares, debentures or other obligations of the company held by non-residents of Bermuda. Furthermore, a company may apply to the Minister of Finance of Bermuda for an assurance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, that no such taxes shall be so applicable until 28th March, 2016, although this assurance will not prevent the imposition of any Bermuda tax payable in relation to any land in Bermuda leased or let to the company or to persons ordinary resident in Bermuda.

K. Stamp duty

An exempted company is exempt from all stamp duties except on transactions involving "Bermuda property". This term relates, essentially, to real and personal property physically situated in Bermuda, including shares in local companies (as opposed to exempted companies). Transfers of shares and warrants in all exempted companies are exempt from Bermuda stamp duty.

L. Loans to directors

Bermuda law prohibits the making of loans by a company to any of its directors or to their families or companies in which they hold more than a 20% interest, without the consent of any member or members holding in aggregate not less than nine-tenths of the total voting rights of all members having the right to vote at any meeting of the members of the company. These prohibitions do not apply to anything done to provide a director with funds to meet the expenditure incurred or to be incurred by him for the purposes of the company, provided that the company gives its prior approval at a general meeting or, if not, the loan is made on condition that it will be repaid with six months of the next following annual general meeting if the loan is not approved at or before such meeting. If the approval of the company is not given for a loan, the directors who authorised it will be jointly and severally liable for any loss arising therefrom.

M. Inspection of corporate records

Members of the general public have the right to inspect the public documents of a company available at the office of the Registrar of Companies in Bermuda which will include the company's certificate of incorporation, its memorandum of association (including its objects and powers) and any alteration to the company's memorandum of association. The members of the company have the additional right to inspect the bye-laws of a company, minutes of general meetings and the company's audited financial statements, which must be presented at the annual general meeting. Minutes of general meetings of a company are also open for inspection by directors of the company without charge for not less than two hours during business hours each day. The register of members of a company is open for inspection by members without charge and to members of the general public for a fee. The company is required to maintain its share register in Bermuda but may, subject to the provisions of the Companies Act, establish a branch register outside Bermuda. Any branch register of members established by the company is subject to the same rights of inspection as the principal register of members of the company in Bermuda. Any person may require a copy of the register of members or any part thereof which must be provided within fourteen days of a request. Bermuda law does not, however, provide a general right for members to inspect or obtain copies of any other corporate records.

A company is required to maintain a register of directors and officers at its registered office and such register must be made available for inspection for not less than two hours in each day by members of the public without charge.

N. Winding up

A company may be wound up by the Bermuda court on application presented by the company itself, its creditors or its contributors. The Bermuda court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Bermuda court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where, on a voluntary winding up, a majority of directors make a statutory declaration of solvency, the winding up will be a members' voluntary winding up. In any case where such declaration has not been made, the winding up will be a creditors' voluntary winding up.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators within the period prescribed by the Companies Act for the purpose of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice published in an appointed newspaper in Bermuda.

In the case of a creditors' voluntary winding up of a company, the company must call a meeting of creditors of the company to be summoned on the day following the day on which the meeting of the members at which the resolution for winding up is to be proposed is held. Notice of such meeting of creditors must be sent at the same time as notice is sent to members. In addition, such company must cause a notice to appear in an appointed newspaper on at least two occasions.

The creditors and the members at their respective meeting may nominate a person to be liquidator for the purposes of winding up the affairs of the company provided that if the creditors nominate a different person, the person nominated by the creditors shall be the liquidator. The creditors at the creditors' meeting may also appoint a committee of inspection consisting of not more than five persons.

If a creditors' winding up continues for more than one year, the liquidator is required to summon a general meeting of the company and a meeting of the creditors at the end of each year to lay before such meetings an account of his acts and dealings and of the conduct of the winding up during the preceding year. As soon as the affairs of the company are fully wound up, the liquidator must make an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon shall call a general meeting of the company and a meeting of the creditors for the purposes of laying the account before such meetings and giving an explanation thereof.

5. GENERAL

Conyers Dill & Pearman, the Company's legal advisers on Bermuda law, have sent to the Company a letter of advice dated 8th December, 2000 summarising certain aspects of Bermuda company law. This letter, together with a copy of the Companies Act, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in appendix VI to this prospectus. Any person wishing to have a detailed summary of Bermuda company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

FURTHER INFORMATION ABOUT THE COMPANY AND ITS SUBSIDIARIES

Incorporation

The Company was incorporated in Bermuda under the Companies Act as an exempted company on 17th October, 2000. As at the date of incorporation of the Company, the Company had an authorised share capital of HK$100,000 divided into 10,000,000 Shares which were allotted and issued nil paid to Questrel on 15th November, 2000. All such Shares were subsequently paid up in the manner described in the paragraph headed "Group reorganisation" below.

The Company has established a principal place of business in Hong Kong at 28th Floor, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong. The Company has submitted an application to the Registrar of Companies in Hong Kong to be registered as an oversea company under Part XI of the Companies Ordinance. The application contains a notice of appointment of Fan Man Seung, Vanessa and Wong Chi Fai as the authorised representatives of the Company for the acceptance of service of process and any notices required to be served on the Company in Hong Kong. The Company is incorporated in Bermuda and is subject to Bermuda law. Its constitution comprises a memorandum of association and bye-laws. A summary of certain relevant parts of its constitution and certain aspects of Bermuda company law is set out in appendix IV to this prospectus.

Changes in the share capital of the Company

Pursuant to resolutions in writing of the sole shareholder of the Company passed on 30th November, 2000, the share capital of the Company was increased to HK$100,000,000 by the creation of a further 9,990,000,000 Shares, of which one Share was on that date allotted and issued and credited as fully paid as described in the paragraph headed "Group reorganisation" below.

On 30th November, 2000, the Company granted options to Mr. Lee, an executive Director and the Chief Executive Officer of the Company, under the Pre-IPO Share Option Scheme to subscribe for a total of 9,259,259 Shares. On full exercise of such options, 9,259,259 Shares will be allotted and issued to Mr. Lee, representing approximately 3.86% of the enlarged issued share capital of the Company immediately after completion of the Share Offer, the Capitalisation Issue and the Pre-IPO Issue (but excluding the exercise of any options granted and remaining exercisable under the Share Option Schemes and the issue of Shares upon any exercise of the Over-allotment Option). Please refer to the paragraph headed "Outstanding options under the Pre-IPO Share Option Scheme" in the section headed "Pre-IPO Share Option Scheme" in this appendix for the principal terms of the Pre-IPO Share Option Scheme.

Pursuant to the Pre-IPO Issue, on 30th November, 2000, the Company conditionally approved the allotment and issue of 4,629,629 Shares to Mr. Lee at the subscription price of HK$0.01 per Share.

Immediately following completion of the Share Offer, the Capitalisation Issue, the Pre-IPO Issue and the issue of Shares as mentioned herein being made and assuming that the Over-allotment Option is not exercised, the authorised share capital of the Company will be HK$100,000,000 divided into 10,000,000,000 Shares, of which 240,000,000 Shares will be issued fully paid or credited as fully paid, and 9,760,000,000 Shares will remain unissued. Other than pursuant to the exercise of any options granted or which may be granted under the Share Option Schemes or pursuant to the exercise of the Over-allotment Option, there is no present intention to issue any of the authorised but unissued share capital of the Company and, without the prior approval of the shareholders of the Company in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as disclosed herein and in the paragraph headed "Written resolutions of the sole shareholder of the Company passed on 30th November, 2000" below, there has been no alteration in the share capital of the Company since the date of its incorporation.

Written resolutions of the sole shareholder of the Company passed on 30th November, 2000

By a resolution in writing passed by the sole shareholder of the Company on 30th November, 2000, the authorised share capital of the Company was increased from HK$100,000 to HK$100,000,000 by the creation of a further 9,990,000,000 Shares.

Pursuant to further resolutions in writing passed by the sole shareholder of the Company on 30th November, 2000:

(a) the Company adopted the Bye-laws;

(b) conditional on the GEM Listing Committee granting listing of and permission to deal in the Shares in issue and to be issued as mentioned herein and on the obligations of the Underwriters under the Underwriting Agreement referred to in the paragraph headed "Underwriting arrangements and expenses" in the section headed "Underwriting" of this prospectus becoming unconditional and not being terminated in accordance with the terms of that agreement or otherwise, in each case on or before 7th January, 2001:

(i) the Share Offer was approved and the Directors were authorised to allot and issue the Offer Shares (including the Over-allotment Option) pursuant thereto;

(ii) the Over-allotment Option was approved and the Directors were authorised to effect the same and to allot and issue Shares upon the exercise of the Over-allotment Option;

(iii) conditional on the GEM Listing Committee granting approval of the Employee Share Option Scheme and the grant of options thereunder and the listing of, and permission to deal in, any Shares which may fall to be issued pursuant to the exercise of any such options, the rules of the Employee Share Option Scheme were approved and adopted and the Directors were authorised to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant thereto and to take all such steps as they consider necessary or desirable to implement the Employee Share Option Scheme;

(iv) conditional on the GEM Listing Committee granting approval of the Pre-IPO Share Option Scheme and the grant of options thereunder and the listing of, and permission to deal in, any Shares which may fall to be issued pursuant to the exercise of any such options, the rules of the Pre-IPO Share Option Scheme were approved and adopted and the Directors were authorised to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant thereto and to take all such steps as they consider necessary or desirable to implement the Pre-IPO Share Option Scheme;

(v) conditional on the share premium account of the Company being credited as a result of the Share Offer, the Directors were authorised to capitalise HK$1,293,703.70 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 129,370,370 Shares for allotment and issue to holders of Shares whose names appear on the register of members of the Company at the close of business on 30th November, 2000 (or as they may direct) in proportion (as nearly as possible without involving fractions) to their then existing holdings;

(vi) the Pre-IPO Issue was approved and the Directors were authorised to allot and issue the 4,629,629 Shares to Mr. Lee pursuant to the Pre-IPO Issue at a subscription price of HK$0.01 per Share and payable in cash;

(vii) a general unconditional mandate was given to the Directors to allot, issue and deal with, otherwise than by way of rights, scrip dividend schemes or similar arrangements in accordance with the Bye-laws, or pursuant to the exercise of any options which may be granted under the Share Option Schemes or under the Share Offer or the Over-allotment Option or the Capitalisation Issue, Shares with an aggregate nominal amount not exceeding the sum of (aa) 20% of the aggregate nominal amount of the share capital of the Company in issue and to be issued as mentioned herein and (bb) if the resolution in (ix) below is passed, the nominal amount of the share capital of the Company which may be repurchased by the Company pursuant to the authority granted to the Directors as referred to in paragraph (viii) below, until the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the Bye-laws or any applicable law to be held or the passing of an ordinary resolution by shareholders of the Company revoking or varying the authority given to the Directors, whichever occurs first;

(viii) a general unconditional mandate was given to the Directors to exercise all powers of the Company to repurchase Shares with an aggregate nominal amount not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue and to be issued as mentioned herein (including any issue of Shares pursuant to the exercise of the Over-allotment Option) until the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the Bye-laws or any applicable law to be held or the passing of an ordinary resolution by shareholders of the Company revoking or varying the authority given to the Directors, whichever occurs first; and

(ix) the extension of the general mandate to allot, issue and deal with Shares to include the nominal amount of the share capital of the Company which is repurchased pursuant to paragraph (viii) above was approved.

Group reorganisation

The companies comprising the Group underwent the Reorganisation to rationalise the Group's structure in preparation for the listing of the Shares on GEM. The Reorganisation involved the transfer to the Company by Questrel of six shares, being the entire issued share capital in Mile Oak Profits Limited, the intermediate holding company of the Group, in consideration of and in exchange for which the Company (i) allotted and issued, credited as fully paid, one Share to Questrel and (ii) credited as fully paid at par the 10,000,000 Shares allotted and issued nil paid to Questrel on 15th November, 2000 upon the organisation of the Company.

In addition to the transfer of shares in Mile Oak Profits Limited referred to above, the Group also underwent the following corporate restructuring:

(a) (i) On 7th March, 2000, Mile Oak Profits Limited was incorporated in the British Virgin Islands with an authorised capital of US$50,000 divided into 50,000 shares of US$1.00 each; and

(ii) On 31st March, 2000, one share of US$1.00 was allotted and issued to Questrel for cash at US$1.00;

(b) (i) On 8th March, 2000, Expert Help Profits Limited was incorporated in the British Virgin Islands with an authorised capital of US$50,000 divided into 50,000 shares of US$1.00 each;

(ii) On 31st March, 2000, one share of US$1.00 was allotted and issued to Mile Oak Profits Limited for cash at par;

(iii) On 31st March, 2000, Fitto Entertainment BVI transferred its 2 shares of US$1.00 each in Expert Help Profits Limited to Questrel for cash at US$1.00 each; and

(iv) On 31st March, 2000, Questrel transferred its 2 shares of US$1.00 each in Expert Help Profits Limited to Mile Oak Profits Limited in consideration of and in exchange for which Mile Oak Profits Limited allotted and issued, credited as fully paid 2 shares to Questrel on 31st March, 2000;

(c) (i) On 8th November, 1999, EEG Web Limited was incorporated in the British Virgin Islands with an authorised capital of US$50,000 divided into 50,000 shares of US$1.00 each;

(ii) On 29th December, 1999, one share of US$1.00 was allotted and issued to EEG Limited for cash at par;

(iii) On 6th March, 2000, EEG Limited transferred its one share of US$1.00 in EEG Web Limited to Questrel for cash at US$1.00; and

(iv) On 31st March, 2000, Questrel transferred its one share of US$1.00 in EEG Web Limited to Mile Oak Profits Limited in consideration of and in exchange for which Mile Oak Profits Limited allotted and issued, credited as fully paid one share to Questrel on 31st March, 2000;

(d) (i) On 23rd February, 1999, EEG Limited was incorporated in Samoa with an authorised capital of US$1,000,000 divided into 1,000,000 shares of US$1.00 each;

(ii) On 29th March, 1999, Offshore Incorporations (Samoa) Limited transferred its one share of US$1.00 in EEG Limited to Questrel for cash at US$1.00; and

(iii) On 30th June, 2000, Questrel transferred its one share of US$1.00 in EEG Limited to Mile Oak Profits Limited in consideration of and in exchange for which Mile Oak Profits Limited allotted and issued, credited as fully paid one share to Questrel on 30th June, 2000;

(e) (i) On 19th August, 1986, Fitto Entertainment was incorporated in Hong Kong with an authorised capital of HK$10,000,000 divided into 10,000,000 shares of HK$1.00 each;

(ii) On 31st March, 2000, Fitto Entertainment BVI transferred its 9,999,999 shares of HK$1.00 each in Fitto Entertainment Company Limited to Expert Help Profits Limited and Double Vision Profits Limited (as nominee of Fitto Entertainment Group Limited) transferred its one share of HK$1.00 in Fitto Entertainment to EEG Nominee Limited (as nominee of Expert Help Profits Limited) in consideration of and in exchange for which Expert Help Profits Limited allotted and issued, credited as fully paid one share of US$1.00 to Fitto Entertainment BVI on 31st March, 2000;

(f) (i) On 23rd July, 1991, Yes Records Limited was incorporated in Hong Kong with authorised capital of HK$10,000 divided into 10,000 shares of HK$1.00 each; and

(ii) On 31st March, 2000, Fitto Entertainment BVI transferred its one share of HK$1.00 in Yes Records Limited to Expert Help Profits Limited and Double Vision Profits Limited (as nominee of Fitto Entertainment BVI) transferred its one share of HK$1.00 in Yes Records Limited to EEG Nominee Limited (as nominee of Expert Help Profits Limited) in consideration of and in exchange for which Expert Help Profits Limited allotted and issued, credited as fully paid one share of US$1.00 to Fitto Entertainment BVI on 31st March, 2000;

(g) (i) On 8th December, 1999, eStardream was incorporated in Hong Kong with an authorised capital of HK$10,000 divided into 10,000 shares of HK$1.00 each;

(ii) On 29th December, 1999, Symbol (Nominees) Company Limited transferred its one share of HK$1.00 in eStardream to Elegant Power Limited (as nominee of eDaily Group Limited) for cash at HK$1.00;

(iii) On 29th December, 1999, T & T Registrations Limited transferred its one share of HK$1.00 in eStardream to Aceluck Nominees Limited (as nominee of Elegant Power Limited) for cash at HK$1.00;

(iv) On 5th January, 2000, 38, 30 and 30 shares of HK$1.00 each in eStardream were allotted and issued respectively to Elegant Power Limited, City Ever Limited (now known as EEG Web Limited) and Transgoal Limited (now known as EMG web Limited) for cash at par;

(v) On 5th January, 2000, Aceluck Nominees Limited transferred its one share of HK$1.00 in eStardream to Elegant Power Limited for nil consideration;

(vi) On 10th March, 2000, EMG Web Limited transferred 10 shares of HK$1.00 each in eStardream to EEG Web Limited for cash at HK$10.00; and

(vii) On 30th June, 2000, EMG Web Limited transferred 10 shares of HK$1.00 each in eStardream to EEG Web Limited for cash at HK$10.00;

(h) (i) On 27th August, 1999, eFoodland was incorporated in Hong Kong with an authorised capital of HK$10,000 divided into 10,000 shares of HK$1.00 each;

(ii) On 30th December, 1999, T & T Registrations transferred its one share of HK$1.00 in eFoodland to Aceluck Nominees Limited (as nominee of Prosperous Future Asset Limited) for cash at HK$1.00;

(iii) On 30th December, 1999, Symbol (Nominees) Company Limited transferred its one share of HK$1.00 in eFoodland to Prosperous Future Assets Limited for cash at HK$1.00;

(iv) On 5th January, 2000, 28,15,15 and 40 shares of HK$1.00 each in eFoodland were allotted and issued respectively to Prosperous Future Assets Limited (nominee of eDaily Group Limited), Best Plan Group Limited (nominee of Emperor Movie Holdings Limited), EEG Nominee Limited (nominee of EEG Limited) and Free Gold Holdings Limited (nominee of Global Food Culture Group Limited) for cash at par;

(v) On 5th January, 2000, Aceluck Nominees Limited transferred its one share of HK$1.00 in eFoodland to Prosperous Future Assets Limited (nominee of eDaily Group Limited) for nil consideration;

(vi) On 10th March, 2000, Best Plan Group Limited transferred 10 shares of HK$1.00 each in eFoodland to EMG Web Limited for cash at HK$10.00;

(vii) On 10th March, 2000, Best Plan Group Limited transferred five shares of HK$1.00 each in eFoodland to EEG Web Limited for cash at HK$5.00; and

(viii) On 10th March, 2000, EEG Limited transferred 15 shares of HK$1.00 each in eFoodland to EEG Web Limited for cash at HK$15.00;

(i) (i) On 22nd February, 1999, Emperor Entertainment Limited was incorporated in Hong Kong with an authorised capital of HK$10,000 divided into 10,000 shares of HK$1.00 each;

(ii) On 14th April, 1999, Symbol (Nominees) Company Limited transferred its one share of HK$1.00 in Emperor Entertainment Limited to EEG Limited for cash at HK$1.00; and

(iii) On 14th April, 1999, T & T Registrations Limited transferred its one share of HK$1.00 in Emperor Entertainment Limited to Double Vision Profits Limited (as nominee of EEG Limited) for cash at HK$1.00;

(j) (i) On 8th January, 1999, Emperor Entertainment Group (Taiwan) Limited was incorporated in the British Virgin Islands with an authorised capital of US$50,000 divided into 50,000 shares of US$1.00 each; and

(ii) On 7th May, 1999, one share of US$1.00 in Emperor Entertainment Group (Taiwan) Limited was allotted and issued to EEG Limited for cash at par;

(k) (i) On 19th May, 1999, EEG Management Services Limited was incorporated in the British Virgin Islands with an authorised capital of US$50,000 divided into 50,000 shares of US$1.00 each; and

(ii) On 19th May, 1999, one share of US$1.00 was allotted and issued to EEG Limited for cash at par;

(l) (i) On 8th December, 1999, EEG Music Publishing Limited was incorporated in Hong Kong with an authorised capital of HK$10,000 divided into 10,000 shares of HK$1.00 each;

(ii) On 29th May, 2000, Symbol (Nominees) Company Limited transferred its one share of HK$1.00 in EEG Music Publishing Limited to EEG Limited for cash at HK$1.00; and

(iii) On 29th May, 2000, T & T Registrations Limited transferred its one share of HK$1.00 in EEG Music Publishing Limited to Double Vision Profits Limited (as nominee of EEG Limited) for cash at HK$1.00;

(m) (i) On 3rd January, 2000, Music Plus Limited was incorporated in Hong Kong with an authorised capital of HK$10,000 divided into 10,000 shares of HK$1.00 each;

(ii) On 29th May, 2000, Symbol (Nominees) Company Limited transferred its one share of HK$1.00 in Music Plus Limited to Double Vision Profits Limited (as nominee of EEG Limited) for cash at HK$1.00; and

(iii) On 29th May, 2000, T & T Registrations Limited transferred its one share of HK$1.00 in Music Plus Limited to EEG Limited for cash at HK$1.00;

(n) (i) On 19th March, 1999, Emperor Production Limited was incorporated in Hong Kong with an authorised capital of HK$10,000 divided into 10,000 shares of HK$1.00 each; and

(ii) On 14th April, 1999, Symbol (Nominees) Company Limited transferred its one share of HK$1.00 in Emperor Production Limited to EEG Limited for cash at HK$1.00; and

(iii) On 14th April, 1999, T&T Registrations Limited transferred its one share of HK$1.00 in Emperor Production Limited to Double Vision Profits Limited (as nominee of EEG Limited) for cash at HK$1.00;

(o) (i) On 25th February, 1992, Emperor Brilliant Limited was incorporated in Hong Kong with an authorised capital of HK$5,000,000 divided into 5,000,000 shares of HK$1.00 each;

(ii) On 1st April, 2000, Mr. Yeung transferred his 99 shares of HK$1.00 each in Emperor Brilliant Limited to EEG Limited for cash at HK$99.00; and

(iii) On 1st April, 2000, Bawanton Company Limited transferred its one share of HK$1.00 in Emperor Brilliant Limited to EEG Nominee Limited (as nominee of EEG Limited) for cash at HK$1.00;

(p) (i) On 23rd August, 1999, Charming Grace Limited was incorporated in Hong Kong with an authorised capital of HK$10,000 divided into 10,000 shares of HK$1.00 each;

(ii) On 24th November, 1999, Symbol (Nominees) Company Limited transferred its one share of HK$1.00 in Charming Grace Limited to Quick Rise Holdings Limited for cash at HK$1.00 and on the same date, Quick Rise Holdings Limited transferred its one share of HK$1.00 in Charming Grace Limited to EEG Limited for cash at HK$1.00; and

(iii) On 24th November, 1999, T&T Registrations Limited transferred its one share of HK$1.00 in Charming Grace Limited to Double Vision Profits Limited for cash at HK$1.00 and on the same date, Double Vision Profits Limited transferred its one share of HK$1.00 in Charming Grace Limited to EEG Nominee Limited (as nominee of EEG Limited) for cash at HK$1.00;

(q) (i) On 2nd September, 1999, EEG Nominee Limited was incorporated in the British Virgin Islands with an authorised capital of US$50,000 divided into 50,000 shares of US$1.00 each; and

(ii) On 29th December, 1999, one share of US$1.00 was allotted and issued to EEG Limited for cash at par;

(r) (i) On 23rd July, 1991, Fitto Publishing Company Limited was incorporated in Hong Kong with an authorised capital of HK$10,000 divided into 10,000 shares of HK$1.00; and

(ii) On 22nd March, 1991, Fitto Entertainment BVI transferred its one share of HK$1.00 in Fitto Publishing Company Limited to Fitto Entertainment for cash at HK$1.00;

(s) (i) On 5th March, 1999, Gold Velvet Limited was incorporated in Hong Kong with an authorised capital of HK$10,000 divided into 10,000 shares of HK$1.00 each;

(ii) On 1st April, 1999, Symbol (Nominees) Company Limited transferred its one share of HK$1.00 in Gold Velvet Limited to Fitto Entertainment for cash at HK$1.00; and

(iii) On 1st April, 1999, T & T Registrations Limited transferred its one share of HK$1.00 in Gold Velvet Limited to Double Vision Profits Limited (as nominee of Fitto Entertainment) for cash at HK$1.00;

(t) (i) On 19th March, 1999, Dynamic Luck Limited was incorporated in Hong Kong with an authorised capital of HK$10,000 divided into 10,000 shares of HK$1.00 each;

(ii) On 4th July, 1999, Symbol (Nominees) Company Limited transferred its one share of HK$1.00 in Dynamic Luck Limited to Emperor Production Limited for cash at HK$1.00; and

(iii) On 4th July, 1999, T&T Registrations Limited transferred its one share of HK$1.00 in Dynamic Luck Limited to Double Vision Profits Limited (as nominee of Emperor Production Limited) for cash at HK$1.00;

(u) (i) On 13th October, 1999, Windmill Limited was incorporated in Hong Kong with an authorised capital of HK$10,000 divided into 10,000 shares of HK$1.00 each;

(ii) On 2nd May, 2000, Symbol (Nominees) Company Limited transferred its one share of HK$1.00 in Windmill Limited to Emperor Production Limited for cash at HK$1.00; and

(iii) On 2nd May, 2000, T & T Registrations Limited transferred its one share of HK$1.00 in Windmill Limited to Double Vision Profits Limited (as nominee of Emperor Production Limited) for cash at HK$1.00;

(v) On 30th June, 2000, part of the advances from Questrel to Mile Oak Profits Limited in the amount of HK$75,000,000 was waived; and

(w) On 30th November, 2000, one share of US$1.00 in Mile Oak Profits Limited was allotted and issued, credited as fully paid, to Questrel to capitalise the sum of HK$91,162,906.65 due to Questrel from Mile Oak Profits Limited.

Changes in the share capital of subsidiaries

The subsidiaries of the Company are listed in the accountants' report set out in appendix I to this prospectus. The following alterations in the share capitals of the Company's subsidiaries took place within the two years immediately preceding the date of this prospectus:

(a) On 7th May, 1999, one share of US$1.00 in Emperor Entertainment Group (Taiwan) Limited was allotted and issued for cash at par to EEG Limited;

(b) On 19th May, 1999, one share of US$1.00 in EEG Management Services Limited was allotted and issued for cash at par to EEG Limited;

(c) On 29th December, 1999, one share of US$1.00 in EEG Web Limited was allotted and issued for cash at par to EEG Limited;

(d) On 29th December, 1999, one share of US$1.00 in EEG Nominee Limited was allotted and issued for cash at par to EEG Limited;

(e) On 5th January, 2000, 98 shares of HK$1.00 each in eFoodland Limited were allotted and issued for cash at par, as to 28 shares to Prosperous Future Assets Limited, 15 shares to Best Plan Group Limited, 15 shares to EEG Nominee Limited and 40 shares to Free Gold Holdings Limited;

(f) On 5th January, 2000, 98 shares of HK$1.00 each in eStardream Limited were allotted and issued for cash at par, as to 38 shares to Elegant Power Limited, 30 shares to EEG Web Limited and 30 shares to EMG Web Limited;

(g) On 31st March, 2000, one share of US$1.00 in Mile Oak Profits Limited was allotted and issued for cash at par to Questrel;

(h) On 31st March, 2000, one share of US$1.00 in Expert Help Profits Limited was allotted and issued for cash at par to Mile Oak Profits Limited;

(i) On 30th June, 2000, one share of US$1.00 in Mile Oak Profits Limited was allotted and issued to Questrel in exchange for one share of US$1.00 in EEG Limited;

(j) On 31st March, 2000, one share of US$1.00 in Mile Oak Profits Limited was allotted and issued to Questrel in exchange for one share of US$1.00 in EEG Web Limited;

(k) On 31st March, 2000, one share of US$1.00 in Expert Help Profits Limited was allotted and issued to Fitto Entertainment BVI in exchange for two shares of HK$1.00 each in Fitto Entertainment;

(l) On 31st March, 2000, one share of US$1.00 in Expert Help Profits Limited was allotted and issued to Fitto Entertainment BVI in exchange for two shares of HK$1.00 each in Yes Records Limited;

(m) On 31st March, 2000, two shares of US$1.00 in Mile Oak Profits Limited were allotted and issued to Questrel in exchange for two shares of US$1.00 in Expert Help Profits Limited; and

(n) On 30th November, 2000, one share of US$1.00 in Mile Oak Profits Limited was allotted and issued to Questrel to capitalise the sum of HK$91,162,906.65 due to Questrel from Mile Oak Profits Limited.

Save as disclosed herein and in the paragraph headed "Group reorganisation" above, there has been no alteration in the share capital of any of the subsidiaries of the Company within the two years immediately preceding the date of this prospectus.

Repurchase by the Company of its own securities

This paragraph includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities.

Stock Exchange Rules

The GEM Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the more important of which are summarised below:

(i) *Shareholders' approval*

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution in writing passed by the sole shareholder of the Company on 30th November, 2000, a general unconditional mandate (the "**Repurchase Mandate**") was given to the Directors authorising any repurchase by the Company of Shares on the Stock Exchange or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, of up to 10% of the aggregate nominal value of the share capital of the Company in issue and to be issued as mentioned herein, such mandate to expire at the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the Bye-laws or any applicable law to be held or when revoked or varied by ordinary resolution of shareholders of the Company in general meeting, whichever shall first occur.

(ii) *Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Company's memorandum of association and Bye-laws and the Companies Act. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Any repurchases by the Company may be made out of capital paid up on the Shares to be repurchased, funds of the Company which would otherwise be available for dividend or distribution or out of a fresh issue of Shares made for the purpose of the repurchase and, in the case of any premium payable on the repurchase, out of the funds of the Company which would otherwise be available for dividend or distribution or from sums standing to the credit of the share premium account of the Company.

(iii) *Trading restrictions*

The total number of shares which a company may repurchase on the Stock Exchange is shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, the repurchases of securities on the Stock Exchange in any calendar month are limited to a maximum of 25% of the trading volume of such securities on the Stock Exchange in the immediately preceding calendar month. The GEM Listing Rules also prohibit a company from repurchasing its securities on the Stock Exchange if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

(iv) *Status of repurchased securities*

All repurchased securities (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those securities must be cancelled and destroyed. Under Bermuda law, a company's repurchased shares will be treated as cancelled.

(v) *Suspension of repurchase*

A company may not make any repurchase of securities after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information has been made publicly available. In particular, during the period of one month immediately preceding either the preliminary announcement of a company's annual results or the publication of its interim report, a company may not repurchase its securities on the Stock Exchange unless the circumstances are exceptional. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a company has breached the GEM Listing Rules.

(vi) *Reporting requirements*

Repurchases of securities on GEM or otherwise must be reported to the Stock Exchange not later than 9:30 a.m. (Hong Kong time) on the following business day. The Stock Exchange is to make this information publicly available as soon as possible. In addition, a company's annual report and accounts are required to disclose details regarding securities repurchases made during the year, including a monthly breakdown of securities repurchases made during the financial year under review, showing the number of securities repurchased each month (whether on GEM or otherwise), the purchase price per share or the highest and lowest prices paid for all such repurchases and the total prices paid. The directors' report shall contain reference to the purchases made during the year and the directors' reasons for making such purchases.

(vii) *Connected parties*

A company is prohibited from knowingly repurchasing securities on the Stock Exchange from a "connected person", that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or any of their associates (as defined in the GEM Listing Rules) and a connected person shall not knowingly sell his securities to the company on the Stock Exchange.

Reasons for repurchases

The Directors believe that it is in the best interest of the Company and its shareholders for the Directors to have general authority from the shareholders to enable the Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if the Directors believe that such repurchases will benefit the Company and its shareholders.

Funding of repurchases

In repurchasing securities, the Company may only apply funds legally available for such purpose in accordance with its memorandum of association and the Bye-laws, the GEM Listing Rules and the applicable laws of Bermuda.

On the basis of the current financial position of the Group as disclosed in this prospectus and taking into account the current working capital position of the Group, the Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of the Group as compared with the position disclosed in this prospectus. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Group or the gearing level which in the opinion of the Directors are from time to time appropriate for the Group.

The exercise in full of the Repurchase Mandate, on the basis of 240,000,000 Shares in issue immediately after completion of the Share Offer, the Capitalisation Issue and the Pre-IPO Issue and assuming that the Over-allotment Option is not exercised, would result in up to 24,000,000 Shares being repurchased by the Company during the period up to the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable law to be held or when revoked or varied by ordinary resolution of shareholders of the Company in general meeting, whichever shall first occur.

General

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to the Company or its subsidiaries.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules and the applicable laws of Bermuda.

If, as a result of a securities repurchase, a shareholder's proportionate interest in the voting rights of the Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

Any purchase of Shares which results in the number of Shares held by the public being reduced to less than 25% of the Shares then in issue could only be implemented with the agreement of the Stock Exchange to waive the GEM Listing Rules requirements regarding the public shareholding referred to above. It is believed that a waiver of such requirements would not normally be given other than in exceptional circumstances.

No connected person (as defined in the GEM Listing Rules) has notified the Company that he has a present intention to sell Shares to the Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

FURTHER INFORMATION ABOUT THE BUSINESS

Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years immediately preceding the date of this prospectus and are or may be material:

(a) an agreement dated 30th November, 2000 and made between (i) Questrel as vendor; and (ii) the Company as purchaser for the acquisition of the entire issued share capital of Mile Oak Profits Limited in consideration of (i) the allotment and issue, credited as fully paid, of one Share to Questrel; and (ii) crediting as fully paid at par the 10,000,000 Shares allotted and issued nil paid to Questrel on 15th November, 2000;

(b) a deed of indemnity dated 7th December, 2000 and executed by Questrel in favour of the Group, eFoodland and eStardream containing the indemnities referred to in the paragraph headed "Estate duty and tax indemnity" in the section headed "Other information" in this appendix;

(c) an underwriting agreement dated 7th December, 2000 and made between (i) the Company; (ii) the executive Directors; (iii) Questrel, Mr. Yeung, Ms. Luk Siu Man, Semon and Mr. Lee; (iv) the Underwriters; and (v) the Sponsor, particulars of which are set out in the section headed "Underwriting" in this prospectus;

(d) a sponsor's agreement dated 7th December, 2000 and made between the Company and BNP Paribas Peregrine Capital whereby the Company appointed the Sponsor as its sponsor for the purpose of the GEM Listing Rules;

(e) a deed dated 30th June, 2000 and executed by Questrel pursuant to which Questrel has waived and given up its rights and entitlements over an amount of HK$75,000,000, being part of the indebtedness owing by Mile Oak Profits Limited to Questrel;

(f) a shareholders' deed dated 5th January, 2000 and entered into between Global Food Culture Group Limited, eDaily Group Limited (formerly known as Sound Strategy Limited), EEG Limited (formerly known as Emperor Entertainment Group Limited) and Emperor Movie in relation to the establishment of eFoodland (formerly known as Charming Way Limited) and to regulate the rights and obligations of such companies as shareholders of eFoodland; and

(g) a shareholders' deed dated 5th January, 2000 and entered into between EEG Limited (formerly known as Emperor Entertainment Group Limited), eDaily Group Limited (formerly known as Sound Strategy Limited) and Emperor Movie in relation to the establishment of eStardream (formerly known as Exceleader Limited) and to regulate the rights and obligations of such companies as shareholders of eStardream.

Intellectual Property

As at the Latest Practicable Date, the Group has registered the following trademarks:

Trade Name/ Marks	Place of Registration	Class	Date of Issuance	Expiration
EEG	Taiwan	41	16th October, 2000	15th September, 2010
EEG	Hong Kong	9	18th August, 2000	28th May, 2006
EEG	Hong Kong	41	18th August, 2000	28th May, 2006
EEG	Taiwan	41	16th November, 2000	15th September, 2010
EEG	Hong Kong	9	18th August, 2000	28th May, 2006
EEG	Hong Kong	41	18th August, 2000	28th May, 2006
EEG	Taiwan	41	16th November, 2000	15th September, 2010
Emperor	Hong Kong	9	18th August, 2000	28th May, 2006
Emperor	Taiwan	41	16th August, 2000	15th July, 2010
英 皇	Taiwan	41	16th August, 2000	15th August, 2010
FITTO	Hong Kong	9	25th July, 1994	4th August, 2012
FITTO	PRC	16 9 41	7th January, 1994 28th October, 1993 21st January, 1997	6th January, 2004 27th October, 2003 20th January, 2007
FITTO	Canada	9	22nd September, 1995	21st September, 2010
FITTO	Singapore	9	27th January, 1998	26th April, 2003
飛圖	Hong Kong	9	25th July, 1994	4th August, 2012
飛圖	PRC	16 9 41	7th January, 1994 28th October, 1993 21st January, 1997	6th January, 2004 27th October, 2003 20th January, 2007
飛圖	Canada	9	22nd September, 1995	21st September, 2010
飛圖	Singapore	9	30th May, 1998	26th April, 2003

Trade Name/ Marks	Place of Registration	Class	Date of Issuance	Expiration
	Hong Kong	9	25th July, 1994	5th August, 2012
	United Kingdom	9	21st January, 1994	23rd August, 2001
	PRC	41	21st January, 1997	20th January, 2007
	Singapore	9	30th November, 1998	27th February, 2002
	Canada	9	20th October, 1995	19th October, 2010
	PRC	16	21st October, 1995	20th October, 2005
	Hong Kong	9	25th November, 1999	4th December, 2003
	PRC	9	21st February, 1998	20th February, 2008
	United Kingdom	9	25th July, 1997	14th January, 2007
	New Zealand	9	26th September, 1997	12th December, 2003
	Taiwan	9	16th April, 2000	15th March, 2010
	PRC	9	28th October, 1993	27th October, 2003
	Hong Kong	9	14th June, 1995	14th September, 2014
	PRC	41	21st January, 1997	20th January, 2007
	Canada	9	22nd September, 1995	21st September, 2010
	PRC	16	21st October, 1995	20th October, 2005
	Canada	9	22nd September, 1995	21st September, 2010

Notes:

1. Items registered under class 9 of the Trade Marks Ordinance of Hong Kong are apparatus and medium of recording, transmission or reproduction of sound and/or images; data carries and recording disc, films, compact discs, laser discs, video cassette tapes, computer discs-interactive, computer microproceessed videos, CD Rom and digital versatile discs, by which visual and/or audio data are recorded, transmitted and/or reproduced.

2. Items registered under class 41 of the Trade Marks Laws of Taiwan are films, records, cassettes, video, VCD, karaoke production and distribution, planning and production of radio and television music programme, conduct of concert, drama and other performance, conduct of artist management and training, conduct of sport and culture activities.

3. Items registered under class 16 of the Trade Marks Registration of the PRC are wrapping materials including paper and plastic for wrapping of tape records, video recordings, records, compact discs, laser discs, movies and all other items by which visual and/or audio data are recorded and reproduced.

As at the Latest Practicable Date, the Group has applied for the registration of the following trademarks:

Trade Name/ Marks	Place of Registration	Class	Application Date	Application No.
EEG	PRC	9	8th June, 1999	9900064453
EEG	PRC	41	7th June, 1999	9900063833
EEG	Taiwan	41	7th July, 1999 (approved on 28th June, 2000)	88033029
EEG	Taiwan	9	7th July, 1999 (approved on 26th September, 2000)	88033026
EEG	PRC	41	7th January, 1999	9900063834
Emperor	Hong Kong	41	29th May, 1999	6907/99
Emperor	PRC	9	8th June, 1999	9900064450
Emperor	Taiwan	9	7th July, 1999 (approved on 28th August, 2000)	88033030
	Hong Kong	9	29th May, 1999	6913/99
	Hong Kong	41	29th May, 1999	6914/99
	PRC	9	8th June, 1999	9900064452
	Taiwan	9	19th July, 1999	88035117
	Taiwan	41	19th July, 1999	88035118
英皇	Hong Kong	9	29th May, 1999	6909/99
英皇	Hong Kong	41	29th May, 1999	6908/99

Trade Name/ Marks	Place of Registration	Class	Application Date	Application No.
英 皇	PRC	9	8th June, 1999	9900064451
英 皇	Taiwan	9	7th July, 1999 (approved on 28th August, 2000)	88033032
MUSIC PLUS	Hong Kong	9	13th June, 2000	13064/2000
	Hong Kong	9	7th August, 2000	17606/2000
	Taiwan	9	13th September, 2000	89052765
	PRC	9	11th August, 2000	2000/21165
	Singapore	9	16th January, 1997	T97/00600c

As at the Latest Practicable Date, the Group has registered the following domain names:

Domain name	Registration date	Renewal date
www.nicholas-tse.com	22nd September, 1999	22nd September, 2001
www.joey-yung.com	23rd January, 2000	23rd January, 2001
www.eegmusic.com	9th March, 2000	9th March, 2001
www.davewangmusic.com	16th May, 2000	16th May, 2001
www.easonchanmusic.com	16th May, 2000	16th May, 2001
www.musicplusasia.com	2nd June, 2000	2nd June, 2001
www.graceipmusic.com	16th May, 2000	16th May, 2001

FURTHER INFORMATION ABOUT THE DIRECTORS AND EXPERTS

Disclosure of interests

(a) **Disclosure of interests of Directors and experts**

(i) During the two years immediately preceding the date of this prospectus, the Group had engaged in dealings with certain Directors and their Associates as described in note (i) to section 3 of the accountants' report set out in appendix I to this prospectus;

(ii) Each of Mr. John Charles Ross Collis and Mr. Anthony Devon Whaley, the Company's Bermuda resident representative and deputy resident representative respectively, is a partner of Conyers Dill & Pearman, the Company's legal advisers on Bermuda law, which firm will receive normal professional fees in connection with the incorporation of the Company and the Share Offer. Mr. Ira Stuart Outerbridge III, the joint secretary of the Company, who will resign as secretary of the Company immediately after the listing of the Shares on GEM, is an employee of Codan Services Limited, a company affiliated with Conyers Dill & Pearman.

(b) **Particulars of service agreements**

Each of the executive Directors has entered into a service agreement with the Company for an initial term of two years commencing from 30th November, 2000, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. Each of these executive Directors is entitled to an annual director's fee of HK$100,000.

Apart from the above service agreements, on 23rd November, 2000, Mr. Lee entered into another service agreement with Emperor Entertainment Limited, a wholly owned subsidiary of the Company, in relation to his service as a director and the Chief Executive Officer of the Company and its subsidiaries in connection with their business, for a term commencing from 1st November, 2000 to 31st October, 2003, such term may be terminated by not less than six months' notice in writing served by either party on the other. Under the service agreement, Mr. Lee is entitled to a salary of approximately HK$2.9 million per annum and a bonus **with no cap** (if any) will be paid at the discretion of the Board and will be subject to the review by the Board.

Apart from the above service agreements, on 5th May, 2000, Mr. Cheng Yiu Keung, an executive Director, has entered into an employment contract with EEG Limited, a wholly owned subsidiary of the Company in relation to his service as the managing director in charge of overseeing the record sales business of the Group. This agreement may be terminated by not less than six months' notice in writing served by either party on the other. Under the service agreement, Mr. Cheng Yiu Keung is entitled to a salary of approximately HK$1.0 million per annum for the year ending 31st March, 2001 and a bonus **with no cap** (if any) will be paid at the discretion of the Board and will be subject to the review by the Board.

Save as aforesaid, none of the Directors has or is proposed to have a service contract with the Company or any of its subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

(c) **Directors' remuneration**

(i) During the years ended 31st March, 1999 and 31st March, 2000, the aggregate emoluments paid by the Group to the Directors were approximately HK$0.5 million and approximately HK$2.4 million respectively.

(ii) No bonus was paid to any of the Directors in the year ended 31st March, 2000.

(iii) None of the Directors or any past directors of any member of the Group has been paid any sum of money for the year ended 31st March, 2000 (i) as an inducement to join or upon joining the Group or (ii) for loss of office as a director of any member of the Group or of any other office in connection with the arrangement of the affairs of any member of the Group.

(iv) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for the year ended 31st March, 2000.

(v) Each of the non-executive Directors has been appointed for a term of two years commencing from 30th November, 2000 and expiring on 29th November, 2002. Save for directors' fees of HK$100,000 each, none of the non-executive Directors is expected to receive any other remuneration for holding their office as non-executive Director.

(vi) Under the arrangements presently in force, the estimated aggregate Directors' remuneration for the year ending 31st March, 2001 is approximately HK$4.2 million.

(d) **Interests of the Directors in the share capital of the Company after the Share Offer, the Capitalisation Issue and the Pre-IPO Issue**

Immediately following completion of the Share Offer, the Capitalisation Issue and the Pre-IPO Issue and assuming that the Over-allotment Option is not exercised, the interests of the Directors in the share capitals of the Company and its associated corporations (within the meaning of the SDI Ordinance) which will have to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests in which they are taken or deemed to have taken under section 30 of, or Part I of the Schedule to, the SDI Ordinance) once the Shares are listed or which will be required pursuant to section 29 of the SDI Ordinance to be entered in the register referred to therein, once the Shares are listed, or pursuant Rule 5.40 to Rule 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange once the Shares are listed will be as follows:

The Company:

Director	Number of Shares	Nature of interests	Total interests
Ms. Luk Siu Man, Semon	139,370,371 Shares	Family *(Note)*	139,370,371 Shares
Mr. Lee	4,629,629 Shares	Personal	4,629,629 Shares

Note: Questrel is the owner of the above 139,370,371 Shares and is a company controlled by Mr. Yeung, spouse of Ms. Luk Siu Man, Semon. Accordingly, Ms. Luk Siu Man, Semon was deemed to be interested in 139,370,371 Shares held by Questrel.

Associated Corporation:

Name of Associated Corporation	Nature of Interest	Type and number of securities
Emperor International (1)	Family	431,779,770 ordinary shares of HK$1.00 each
Global Food Culture Group Limited (2)	Family	675,842,500 ordinary shares of HK$1.00 each

Notes:

(1) These shares are registered in the name of and beneficially owned by, Charron Holdings Limited, a wholly owned subsidiary of Questrel. Accordingly, *Ms.* Luk Siu Man, Semon was deemed to be interested in the 431,779,770 shares in Emperor International.

(2) These shares are registered in the name of and beneficially owned by, Forever Rich Profits Limited, an indirect wholly owned subsidiary of Questrel. Accordingly, *Ms.* Luk Siu Man, Semon was deemed to be interested in the 675,842,500 shares in Global Food Culture Group Limited.

Substantial shareholders

So far as the Directors are aware, immediately following completion of the Share Offer, the Capitalisation Issue, the Pre-IPO Issue and assuming that the Over-allotment Option is not exercised and taking no account of Shares which may be taken up under the Share Offer, the following shareholders will be interested in more than 10% of the Shares then in issue:

Name	Number of Shares	Percentage holding
Questrel	139,370,371	58.07%
Mr. Yeung	139,370,371	58.07%
Ms. Luk Siu Man, Semon	139,370,371	58.07%

Note: Questrel is the owner of the 139,370,371 Shares and is a company controlled by Mr. Yeung. Accordingly, Mr. Yeung, spouse of Ms. Luk Siu Man, Semon was deemed to be interested in the 139,370,371 Shares held by Questrel. By virtue of the above interests of Mr. Yeung, Ms. Luk Siu Man, Semon is also deemed to be interested in the above 139,370,371 Shares held by Questrel. Details of the relationship between Questrel and Mr. Yeung are set out in the paragraph headed ''Connected transactions'' under the section headed ''Business'' in this prospectus.

Related party transactions

During the two years immediately preceding the date of this prospectus, the Group had engaged in related party transactions as described in the paragraph headed ''Connected transactions'' under the section headed ''Business'' in this prospectus and note (i) to section 3 of the accountants' report set out in appendix I to this prospectus.

Disclaimer

Save as disclosed in this prospectus:

(a) and taking no account of any Shares which may be taken up or acquired under the Share Offer or the Over-allotment Option or any option which may be granted under the Share Option Schemes, the Directors are not aware of any person who immediately following completion of the Share Offer, the Capitalisation Issue and the Pre-IPO Issue will hold either directly or indirectly, or be beneficially interested in, Shares representing 10% or more of the share capital of the Company in issue and to be issued as mentioned herein;

(b) none of the Directors has for the purposes of section 28 of the SDI Ordinance or the GEM Listing Rules, nor is any of them taken to or deemed to have taken under section 31 of, or Part 1 of the Schedule to, the SDI Ordinance, any interests in the securities of the Company or any associated corporations (within the meaning of the SDI Ordinance) or any interests which will have to be entered in the register to be kept by the Company pursuant to section 29 of the SDI Ordinance or which will be required to be notified to the Company and the Stock Exchange pursuant to Rule 5.40 to 5.59 once the Shares are listed on GEM;

(c) and note (i) to section 3 of the accountants' report set out in appendix I to this prospectus, none of the Directors or the experts named in paragraph headed "Qualification of experts" in the section headed "Other information" in this appendix has been interested in the promotion of, or has any direct or indirect interest in any assets acquired or disposed of by or leased to, any member of the Group within the two years immediately preceding the date of this prospectus, or which are proposed to be acquired or disposed of by or leased to any member of the Group nor will any Director apply for the Offer Shares either in his own name or in the name of a nominee;

(d) and in particular as disclosed in note (i) to section 3 of the accountants' report set out in appendix I to this prospectus and the paragraph headed "Group reorganisation" in the section headed "Further information about the Company and its subsidiaries" in this appendix, no Director is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole; and

(e) none of the experts named in the paragraph headed "Qualification of experts" in the section headed "Other information" in this appendix has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

EMPLOYEE SHARE OPTION SCHEME

Summary of terms

a *Who may join*

The Directors may, at their absolute discretion, invite any full time employee of the Company or any of its subsidiaries, including any director of the Company or any such subsidiary, to take up options to subscribe for Shares.

b *Price for Shares*

The subscription price for Shares under the Employee Share Option Scheme will be a price determined by the Directors, but may not be less than the higher of the closing price of Shares on the Stock Exchange on the date of grant of the option, the average of the closing price of Shares on the Stock Exchange for the five trading days immediately preceding the date of grant of the option or the nominal value of the Shares. A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

c *Maximum number of Shares*

(i) The maximum number of Shares in respect of which options may be granted under the Employee Share Option Scheme may not (when aggregated with Shares subject to any other share option schemes, including the Pre-IPO Share Option Scheme) exceed in nominal amount 30% of the issued share capital of the Company from time to time, excluding for this purpose (aa) Shares issued upon the exercise of any options granted under the Employee Share Option Scheme (or any other employee share option schemes, including the Pre-IPO Share Option Scheme) and (bb) any pro-rata entitlements to further Shares issued in respect of those Shares mentioned in (aa) above:

(1) the total number of Shares available for issue under options which may be granted under the Employee Share Option Scheme and any other schemes (including the Pre-IPO Share Option Scheme) must not, in aggregate, exceed 10% of the issued share capital of the Company as at the date of the listing of the Shares on GEM unless shareholders' approval has been obtained pursuant to paragraph (2) or (3) below;

(2) the Directors may seek approval by shareholders in general meeting to refresh the 10% limit. However, the total number of Shares available for issue under options which may be granted under the Employee Share Option Scheme and any other schemes (including the Pre-IPO Share Option Scheme) in these circumstances must not exceed 10% of the issued share capital of the Company at the date of approval of the refreshing of the limit; and

(3) the Directors may seek separate shareholders' approval in general meeting to grant options beyond the 10% limit provided that (i) the total number of Shares subject to the Employee Share Option Scheme and any other schemes (including the Pre-IPO Share Option Scheme) does not in aggregate exceed 30% of the total issued share capital of the Company and (ii) the options in excess of the 10% limit are granted only to participants specified by the Directors before such approval is sought.

(ii) No option may be granted to any one person which, if exercised in full, will result in the total number of Shares already issued and which may fall to be issued to him under all the options previously granted to him pursuant to the Share Option Schemes exceeding 25% of the maximum aggregate number of Shares for the time being issued and which may fall to be issued under the Share Option Schemes.

d *Restrictions on grant of options*

(i) No option shall be granted after a price sensitive development has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been announced pursuant to the relevant requirements of the GEM Listing Rules and, in particular, no option shall be granted during the period of one month immediately preceding the preliminary announcement of the annual results of the Company or the publication of the interim results of the Company until such information has been announced pursuant to the relevant requirements of the GEM Listing Rules.

(ii) Any grant of options to a connected person (as defined in the GEM Listing Rules) must be approved by the independent non-executive Directors.

(iii) Where options are proposed to be granted to a connected person who is also a substantial shareholder (as defined in the GEM Listing Rules) or any of their respective Associates, and the proposed grant of options, when aggregated with the options already granted to that connected person in the past 12 months' period, would entitle him to receive more than 0.1% of the total issued shares of the Company for the time being and the value of which, based on the closing price of the Shares at the proposed date of grant, is in excess HK$5 million, the proposed grant must be subject to the approval of shareholders of the Company in general meeting. The connected person involved and all other connected persons of the Company must abstain from voting in such general meeting (except where any connected person intends to vote against the proposed grant). A shareholders' circular must be prepared by the Company explaining the proposed grant, disclosing the number and terms of the options to be granted and containing a recommendation from the independent non-executive Directors on whether or not to vote in favour of the proposed grant.

e *Time of exercise of option*

An option may be exercised in accordance with the terms of the Employee Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may not expire earlier than 3 years and later than 10 years from the date of grant of the option subject to the provisions for early termination thereof.

f *Rights are personal to the grantee*

An option is personal to the grantee and shall not be transferable or assignable save as provided under the rules of the Employee Share Option Scheme.

g *Rights on ceasing employment*

If the grantee of an option ceases to be an eligible employee of the Group for any reason other than death, ill-health or retirement in accordance with his contract of employment or for serious misconduct or other grounds referred to in sub-paragraph (i) below before exercising his option in full, the option (to the extent not already exercised) will lapse on the date of cessation and will not be exercisable unless the Directors otherwise determine, in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as the Directors may determine following the date of such cessation, which will be taken to be the last day on which the grantee was at work with the Group whether salary is paid in lieu of notice or not.

h *Rights on death*

If the grantee of an option ceases to be an eligible employee of the Group by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s), or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of cessation which date shall be the last day on which the grantee was at work with the Group whether salary is paid in lieu of notice or not or such longer period as the Directors may determine.

i *Rights on dismissal*

If the grantee of an option ceases to be an eligible employee of the Group by reason that he has been guilty of serious misconduct or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of the Directors does not bring the grantee or the Company into disrepute), his option will lapse automatically and will not in any event be exercisable on or after the date of cessation of being an eligible employee.

j *Effect of alterations to capital*

In the event of any alteration in the capital structure of the Company whilst an option remains exercisable, such corresponding alterations (if any) certified by the auditors for the time being of the Company as fair and reasonable will be made to the number or nominal amount of Shares the subject matter of the Employee Share Option Scheme and the option so far as unexercised and/or the option price and/or the method of exercise of the option concerned, provided that such alteration will be made on the basis that the aggregate subscription price payable by the grantee upon the full exercise of any option shall remain as nearly as possible the same (but shall not be greater than) it was before such event but so that no alteration shall be made the effect of which would be to enable a Share to be issued at less than its nominal value or to increase the proportion of the issued share capital of the Company for which any grantee is entitled to subscribe pursuant to the option granted to him immediately prior to such alteration.

k *Rights on a general offer*

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, the Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, shareholders of the Company. If such offer becomes or is declared unconditional, a grantee shall be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to the Company in exercise of his option at any time before the close of such offer (or any revised offer). Subject to the above, an option will lapse automatically (to the extent not already exercised) on the date on which such offer (or, as the case may be, revised offer) closes.

l *Rights on winding up*

In the event of an effective resolution being proposed for the voluntary winding-up of the Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to the Company at any time prior to the date on which such resolution is passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Employee Share Option Scheme and shall accordingly be entitled, in respect of the Shares falling to be allotted and issued upon the exercise of his option, to participate in the distribution of the assets of the Company available in liquidation pari passu with the Shares in issue on the day prior to the date of such resolution.

m *Rights on compromise or arrangement*

In the event of a compromise or arrangement between the Company and its members or creditors being proposed in connection with a scheme for the reconstruction or amalgamation of the Company, the Company shall give notice thereof to all grantees on the same date as it gives notice of the meeting to its members or creditors to consider such a scheme or arrangement and any grantee (or his or her legal personal representatives) may by notice in writing to the Company accompanied by a remittance of the full amount of the exercise price in respect of which the notice is given (such notice to be received by the Company not later than 2 business days prior to the proposed meeting) exercise the option (to the extent not already exercised) either to its full extent or to the extent specified in such notice and the Company shall as soon as possible and in any event no later than the day immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise of the option credited as fully paid and register the grantee as the holder thereof.

n *Ranking of Shares*

(i) Shares allotted upon the exercise of an option will be subject to all the provisions of the Bye-laws of the Company and will rank pari passu in all respects with the fully paid Shares in issue on the date on which the option is duly exercised (the "**Exercise Date**") and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted upon the exercise of an option shall not carry voting rights until the completion of the registration of the grantee as the holder thereof; and

(ii) Unless the context otherwise requires, references to "Shares" in this section include references to shares in the ordinary equity share capital of the Company of such nominal amount as shall result from a sub-division, consolidation, re-classification or reduction of the share capital of the Company from time to time.

o *Period of the Employee Share Option Scheme*

The Employee Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Employee Share Option Scheme becomes unconditional.

p *Others*

(i) The Employee Share Option Scheme is conditional on the GEM Listing Committee granting approval of such scheme, the subsequent grant of options by the Company pursuant thereto and listing of and permission to deal in the Shares to be issued pursuant to the exercise of any options which may be granted under the Employee Share Option Scheme; and

(ii) Any alterations to the terms and conditions of the Employee Share Option Scheme which are of a material nature must be approved by the Stock Exchange, except where the alterations take effect automatically under the existing terms of the Employee Share Option Scheme.

Present status of the Employee Share Option Scheme

Application has been made to the GEM Listing Committee for the approval of the Employee Share Option Scheme, the subsequent grant of options under the Employee Share Option Scheme and the listing of and permission to deal in the Shares to be issued pursuant to the exercise of any options which may be granted under the Employee Share Option Scheme.

As at the date of this prospectus, no options have been granted or agreed to be granted under the Employee Share Option Scheme.

PRE-IPO SHARE OPTION SCHEME

The purpose of the Pre-IPO Share Option Scheme is to recognise the contribution of Mr. Lee, an executive Director and the Chief Executive Officer of the Company, to the growth of the Group and/or to the listing of Shares on GEM. The principal terms of the Pre-IPO Share Option Scheme, approved by a written resolution of the sole shareholder of the Company passed on 30th November, 2000 (which is subject to the GEM Listing Committee approving the granting of the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of the options under the Pre-IPO Share Option Scheme), are the same as the terms of the Employee Share Option Scheme except that:

(a) the subscription price for Shares is the higher of the Issue Price or the nominal value of a Share;

(b) the total number of Shares subject to the Pre-IPO Share Option Scheme will not exceed 9,259,259, equivalent to approximately 3.86% of the enlarged issued share capital of the Company immediately following completion of the Share Offer, the Capitalisation Issue and the Pre-IPO Issue but excluding Shares to be issued under the Over-allotment Option or pursuant to the exercise of any options granted and remaining exercisable under the Share Option Schemes;

(c) the grantees eligible for the options comprise only executive Directors; and

(d) save for the options which have been granted (see below), no further options will be offered or granted, as the right to do so will end upon the listing of Shares on GEM.

Details of the timing of exercise of the options have been described in the paragraph headed ''Outstanding options under the Pre-IPO Share Option Scheme'' below.

As of the Latest Practicable Date, options to subscribe for an aggregate of 9,259,259 Shares (being approximately 3.86% of the enlarged issued share capital of the Company immediately following completion of the Share Offer, the Capitalisation Issue and the Pre-IPO Issue but excluding Shares to be issued under the Over-allotment Option or pursuant to the exercise of any options granted and remaining exercisable under the Share Option Schemes) at an exercise price equal to the higher of the Issue Price or the nominal value of a Share have conditionally been granted by the Company to Mr. Lee of 10C, Monticello, 48 Kennedy Road, Hong Kong, an executive Director and the Chief Executive Officer of the Company, under the Pre-IPO Share Option Scheme. All of these options may be exercised within twelve months from the expiry of twelve months from the Listing Date, but shall lapse where such grantee ceases to be employed by the Group.

Save as disclosed above, no other options have been granted or agreed to be granted by the Company under the Share Option Schemes.

OTHER INFORMATION

Estate duty and tax indemnity

Questrel entered into a deed of indemnity with and in favour of the Company (being the material contract (b) referred to in the paragraph headed "Summary of material contracts" under the section headed "Further information about the business" in this appendix) to provide indemnities in respect of, among other matters, any liability for Hong Kong estate duty which might be incurred by any member of the Group and/or its associated companies by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong) to any member of the Group on or before the date on which the Share Offer becomes unconditional. The Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries in the Bermuda.

Under the deed of indemnity, Questrel has also given indemnities to the Group in relation to taxation which might be payable by any member of the Group in respect of any income, profits or gains earned, accrued or received on or before the date on which the Share Offer becomes unconditional, save in certain circumstances including where provision has been made for such taxation in the audited accounts of any member of the Group for the period ended 30th June, 2000.

Litigation

Save as disclosed above, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

Address for service of process and notices

Fan Man Seung, Vanessa and Wong Chi Fai have been appointed as the authorised persons to accept service of process and notices of the Group. The address for service of process and notices is 28th Floor, Emperor Centre, 288 Hennessy Road, Wanchai, Hong Kong.

Sponsor

The Sponsor has made an application on behalf of the Company to the GEM Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein and the Shares which may be issued upon the exercise of any options which may be granted under the Share Option Schemes.

Preliminary expenses

The estimated preliminary expenses of the Company are approximately US$4,700 and are payable by the Company.

Promotor

(a) The promoter of the Company is Questrel which was incorporated in the British Virgin Islands on 23rd July, 1991 with an issued share capital of US$1. Questrel appointed Bright Queen Limited as the sole director which is a company wholly owned by Mr. Yeung.

(b) Save as disclosed herein, within the two years immediately preceding the date of this prospectus, no amount or benefit has been paid or given to the promoter named in sub-paragraph (a) above in connection with the Share Offer or the related transactions described in this prospectus.

Qualification of experts

The qualifications of the experts who have given opinions in this prospectus and/or whose names are included in this prospectus are as follows:

Name	Qualification
BNP Paribas Peregrine Capital	Registered investment adviser and registered dealer under the Securities Ordinance
Deloitte Touche Tohmatsu	Certified Public Accountants
Chesterton Petty Limited	Professional surveyors
Conyers Dill & Pearman	Bermuda barristers & attorneys

Consents of experts

BNP Paribas Peregrine Capital, Deloitte Touche Tohmatsu, Chesterton Petty and Conyers Dill & Pearman have given and have not withdrawn their respective written consents to the issue of this prospectus with copies of their reports, valuation, letters or opinions (as the case may be) and the references to their names or summaries of opinions included herein in the form and context in which they respectively appear.

Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

Taxation of holders of shares

(a) Dealings in Shares will be subject to Hong Kong stamp duty. Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares. It is emphasised that none of the Company, the Directors or the other parties involved in the Share Offer accepts responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

(b) The Shares are Hong Kong property for the purposes of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) and, accordingly, Hong Kong estate duty may be payable in respect thereof on the death of an owner of Shares.

(c) The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is HK$2.25 for every HK$1,000 (or part thereof) of the consideration or, if higher, the fair value of the Shares being sold or transferred.

(d) Under present Bermuda law, transfers and other dispositions of Shares are exempt from Bermuda stamp duty.

Miscellaneous

(a) Save as disclosed herein:

(i) within two years immediately preceding the date of this prospectus:

(aa) no share or loan capital of the Company or of any of its subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash; and

(bb) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries;

(ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and

(iii) there has been no material adverse change in the financial position or prospects of the Group since 30th June, 2000 (being the date to which the latest audited combined financial statements of the Group were made up).

(b) The Company has no founder shares, management shares or deferred shares.

(c) Subject to the provisions of the Companies Act, the register of members of the Company will be maintained in Bermuda by Butterfield Corporate Services Limited and a branch register of members of the Company will be maintained in Hong Kong by Secretaries Limited. Unless the Directors otherwise agree, all transfers and other documents of title of Shares must be lodged for registration with and registered by, the Company's share registrar in Hong Kong and may not be lodged in the Bermuda.

(d) All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

DOCUMENTS DELIVERED TO THE REGISTRARS OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE** and **YELLOW** application forms, the written consents referred to in the paragraph headed "Consents of experts" in the section headed "Other information" in appendix V to this prospectus, and copies of the material contracts referred to in the paragraph headed "Summary of material contracts" in the section headed "Further information about the business" in appendix V to this prospectus and the statement of adjustments made by Deloitte Touche Tohmatsu in arriving at the figures set out in the accountants' report set out in appendix I to this prospectus. A copy of this prospectus filed with the Registrar of Companies in Bermuda had attached to it copies of the **WHITE** and **YELLOW** application forms.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Fairbairn Catley Low & Kong of 43rd Floor, Gloucester Tower, The Landmark, 11 Pedder Street, Hong Kong during normal business hours up to and including 23rd December, 2000:

(a) the memorandum of association and the bye-laws of the Company;

(b) the accountants' report, the text of which is set out in appendix I to this prospectus;

(c) the audited financial statements as have been prepared for the companies comprising the Group for each of the two years ended 31st March, 1999 and 31st March, 2000 and the three months ended 30th June, 2000;

(d) the statement of adjustments for the accountants' report;

(e) the letters relating to the profit forecast of the Group, the texts of which are set out in appendix II to this prospectus;

(f) the letter, summary of valuation and valuation certificate relating to the property interests of the Group, the text of which is set out in appendix III to this prospectus;

(g) the letter summarising certain aspects of Bermuda company law referred to in appendix IV to this prospectus;

(h) the Companies Act;

(i) the rules of the Share Option Schemes;

(j) the material contracts referred to in the paragraph headed "Summary of material contracts" in the section headed "Further information about the business" in appendix V to this prospectus;

(k) the service agreements between the Group and the executive Directors referred to in the paragraph headed "Particulars of service agreements" in the section headed "Further information about the Directors and experts" in appendix V to this prospectus; and

(l) the written consents referred to in the paragraph headed "Consents of experts" in the section headed "Other information" in appendix V to this prospectus.