



Era Information & Entertainment Limited

年代資訊影視有限公司

(Incorporated in the Cayman Islands with limited liability)



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2001

ERA HOME

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This document, for which the directors of Era Information & Entertainment Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this document 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 document misleading; and (3) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS FOR THE SIX-MONTHS ENDED 30 JUNE 2001

- Turnover increased by approximately 33%, amounting to approximately HK\$65 million.
- Achieved a net profit attributable to shareholders of approximately HK\$1.4 million.
- The shares of the Company were successfully listed on GEM on 28 June 2001.

RESULTS

The Directors are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months and the six months ended 30 June 2001, together with the unaudited comparative figures for the corresponding periods in 2000:

	<i>Notes</i>	For the three months ended 30 June		For the six months ended 30 June	
		2001	2000	2001	2000
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	(2)	29,436	27,770	64,962	49,020
Cost of sales		(19,421)	(18,682)	(44,629)	(34,239)
Gross profit		10,015	9,088	20,333	14,781
Other revenue		227	128	385	225
Portal promotion costs		(5)	(857)	(21)	(1,784)
Portal development costs		(568)	(845)	(1,509)	(1,230)
Distribution costs		(181)	(105)	(350)	(268)
Administrative expenses		(7,707)	(5,752)	(15,291)	(9,968)
Other operating expense		(4)	—	(5)	—
Profit from operations		1,777	1,657	3,542	1,756
Finance costs		(129)	(27)	(236)	(32)
Share of loss of associates		(237)	(520)	(343)	(760)
Profit before taxation		1,411	1,110	2,963	964
Taxation	(3)	(691)	(517)	(1,562)	(957)
Net profit attributable to shareholders		720	593	1,401	7
Earnings per share	(4)				
- basic (cents)		0.268	0.226	0.528	0.003
- diluted (cents)		0.268	N/A	0.528	N/A

1. Basis of preparation

The Company was incorporated in the Cayman Islands on 26 May 2000 as an exempted company under the Companies Law (2000 Revision) of the Cayman Islands. The Company's shares were successfully listed on GEM on 28 June 2001.

Pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of the Company's shares (the "Shares") of HK\$0.01 each on GEM, the Company became the holding company of the Group on 5 June 2001. The Reorganisation involved companies under common control, and the Company and its subsidiaries resulting from the Reorganisation were regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated results have been prepared as if the Group had been in existence throughout the six months and three months ended 30 June 2001 and 2000.

All significant intercompany transactions and balances within the Group, including intercompany profits are eliminated on consolidation. The consolidated results have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Companies Ordinance (Chapter 32, Laws of Hong Kong).

2. Turnover

	For the three months ended 30 June		For the six months ended 30 June	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover				
Sales of home video products	28,768	20,338	61,511	41,080
Theatrical and television release income	546	7,384	3,293	7,873
Online business income	122	48	158	67
	<u>29,436</u>	<u>27,770</u>	<u>64,962</u>	<u>49,020</u>

3. Taxation

Hong Kong profits tax was provided at the rate of 16% for the three months and the six months ended 30 June 2001 (2000: 16%) on the estimated assessable profits arising in or derived from Hong Kong.

No deferred taxation was provided as certain subsidiaries of the Group has substantial tax loss in excess of the tax allowances over depreciation while the effect of timing differences of other subsidiaries of the Group is not material.

4. Earnings per share

The calculation of basic earnings per share is based on the unaudited net profit attributable to shareholders for the three months and six months ended 30 June 2001 of approximately HK\$720,000 and HK\$1,401,000, respectively (three months and six months ended 30 June 2000: approximately HK\$593,000 and HK\$7,000, respectively) and the weighted average number of 268,373,626 shares and 265,204,420 shares, respectively for the three months and six months ended 30 June 2001 (2000: 262,000,000 for both periods) deemed to be in issue during the periods assuming the 262,000,000 shares issued pursuant to the Reorganisation described in Note 1 above had been outstanding throughout the three months and six months ended 30 June 2001 and 2000.

The calculation of diluted earnings per share for the three months and six months ended 30 June 2001 was based on the unaudited net profit attributable to shareholders of approximately HK\$720,000 and HK\$1,401,000, respectively and the diluted weighted average number of approximately 268,428,088 shares and 265,231,801 shares, respectively in issue during the periods. They have been calculated after taking into account all dilutive instruments outstanding as at 30 June 2001. The effect of the dilutive potential ordinary shares resulting from the exercise of the outstanding share options on the weighted average number of shares in issue during the three months and six months ended 30 June 2001 were approximately 54,462 shares and 27,381 shares, respectively which were deemed to have been issued at no consideration as if all outstanding share options had been exercised on the date the options were granted.

Diluted earnings per share is not presented for the three months and six months ended 30 June 2000 because there were no dilutive potential ordinary shares in existence during the periods.

5. Movement in reserves

During the six months ended 30 June 2001, the Group had the following movement in reserves:

	Share premium <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i>	Retained profits / (Accumulated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance as at 1 January 2001	—	20,002	(435)	19,567
Increase in share capital of a subsidiary	—	4,000	—	4,000
Net profit for the three months' period ended 31 March 2001	—	—	681	681
Balance as at 31 March 2001	—	24,002	246	24,248
New issue on the placing	57,420	—	—	57,420
Capitalisation of share premium	(2,617)	—	—	(2,617)
Shares issue expenses	(12,878)	—	—	(12,878)
Net profit for the three months' period ended 30 June 2001	—	—	720	720
Balance as at 30 June 2001	<u>41,925</u>	<u>24,002</u>	<u>966</u>	<u>66,893</u>

For the six months ended 30 June 2000, other than the profit for the period, there are no reserve movement.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2001 (six months ended 30 June 2000: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

The Company's shares were listed on GEM on 28 June 2001 at an issued price of HK\$1 per share. The net proceeds from the placing of Shares, after deducting related expenses, are approximately HK\$45 million.

Turnover for the six months ended 30 June 2001 amounted to approximately HK\$65 million, represented an increase of about 33% when compared with that of the corresponding six months' period ended 30 June 2000. The increase in turnover is mainly contributed by the increase in sales of home video products of about 50% as compared with that of the corresponding period in 2000. When compared with last corresponding period, turnover in theatrical and television release income decreased by approximately HK\$4 million. Number of titles of theatrical release dropped by 50% when compared with that of last corresponding period, because there are delays in the production schedule of the Group's licensor in respect of certain film titles. As no major advertising and promotion activities were carried out to launch the online store to the public during the six months' period under review, the income from the online business is not material.

Comparison of Business Objectives with actual business progress

According to the business objectives as stated in the prospectus dated 12 June, 2001

Actual business progress

Home Video Products Distribution

- | | |
|---|--|
| <p>1. Continue to develop network by distributing through more retail chain stores in Hong Kong and Macau</p> <p>2. Continue to expand product base by representing additional labels</p> | <p>The Group expanded its distribution network to about 1,300 outlets in Hong Kong and Macau, including various video rental, record stores and retail chain stores namely HMV, Blockbuster, 7-Eleven, Watson's and Wellcome.</p> <p>The Group has been making every effort to obtain additional label representation in order to increase its market share and returns. Apart from existing distributorship agreements with Columbia Tristar, Universal and Miramax, the Group obtained additional labels of Universal's VCD as well as DreamWorks' VCD and DVD during the period under review.</p> |
|---|--|

Theatrical, pay/free TV rights Distribution

1. Commence liaising with new pay TV players for sub-licensing of the Group's motion pictures
2. To finalise the formal distribution agreement in connection with the exclusive distribution rights of programs owned by Toei of Japan in various formats in Hong Kong

The Group is under negotiation with various existing and new television operators in respect of content supply.

Further to the memorandum of understanding in respect of Toei of Japan in April 2001, a formal distribution agreement was signed by the end of June 2001, securing more all-rights distribution products.

Internet Business

1. Continue to run online store for the sale of VCDs and DVDs and local rental services of DVDs
2. Continue to increase the depth of content of and provide more features to www.mov3.com
3. Continue syndications with major websites

A portal development cost of approximately HK\$1.5 million, including development of reporting and back-end servicing programs, was incurred during the period under review, whereas the operation of the online CD/VCD/DVD store of the Group commenced in May 2001 and was followed by an official launch in July 2001. Intensive advertising and promotion activities of the online store were carried out in July 2001, after the Group is confident that the operation of the store is smooth enough to cater for the needs of numerous consumers.

The Group continues to increase the depth of content of and provide more features to www.mov3.com.

During the period under review, the Group has negotiated with major websites in connection with content syndication.

Use of proceeds

During the period under review, the Group has paid approximately HK\$4.7 million in respect of acquiring additional home video labels, as compared with the estimated utilization of net proceeds of HK\$4.5 million for expansion of the home video and theatrical categories as mentioned in the Prospectus.

Prospects

Home video products distribution currently remains as the major contributor to the Group's turnover. Furthermore, by securing additional distribution rights with Universal and DreamWorks in early 2001, the Group is confident that turnover in this segment will grow. To enhance the sale of home video products and to capture rising market demand, the Group will continue to develop and enhance its distribution network.

Aiming to position itself as one of the major content providers and in view of the growing market demand resulting from the liberation of the TV market and the increasing number of TV operators in the region, the Group is committed to taking on additional product representation and acquiring more contents. Additionally, the formal distribution agreement between the Group and Era Communications Co., Ltd. ("ERA Taiwan") is expected to be concluded within the third quarter of 2001. The Directors are confident that this agreement with a renowned entertainment group will not only enrich the content library of the Group, but also bring in better income for both of its home video products distribution and TV rights distribution businesses.

On the Internet front, following the commencement of operation of the online store in May 2001, it was officially launched in July 2001. With intensive advertising and promotion campaigns, the market has so far responded positively and the number of customers is growing. The Group will continue to increase the variety of products and services available online and place increased efforts in promotion. As this new business has just commenced, the Directors believe that it will start to enjoy fruitful returns in the coming year or so.

With every effort to strengthen and develop the above streams of businesses, the Group is also actively pursuing territorial expansions. Negotiations in respect of various overseas developments, in particular, in the Peoples' Republic of China, are in progress.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARE CAPITAL

As at 30 June 2001, according to the register required to be kept under Section 29 of the Securities (Disclosure of interests) Ordinance (the "SDI Ordinance") or otherwise notified to the Company pursuant to the minimum standards of dealings by the Directors as referred to in Rules 5.41 to 5.59 of the GEM Listing Rules, the interests of Directors, chief executive and their associates in Shares were as follows:

Name of Directors	Type of interest	Number of Shares
Leung Chung Chu, Andrew	Personal	36,000,000
Chiu Fu Sheng	Corporate (<i>Note</i>)	180,000,000

Note: The 180,000,000 Shares are held by 5D Technology Holdings Ltd. which is an investment holding company incorporated in BVI with all its shares held by ERA Taiwan. ERA Taiwan is a company incorporated in Taiwan with limited liability with its shares held by the following parties:

Name of shareholders	Percentage of shareholding
Chiu Fu Sheng and his associates (as defined in the GEM Listing Rules)	56.93%
Far Eastern International Bank (<i>Note</i>)	3.7%
Global Venture Offshore Limited (<i>Note</i>)	7.49%
Capital International Global Emerging Markets Private Equity Fund L.P. (<i>Note</i>)	7.5%
Others (<i>Note</i>)	24.38%
	100%

Note: So far as the Directors are aware, the beneficial owners of Far Eastern International Bank, Global Venture Offshore Limited, Capital International Global Emerging Markets Private Equity Fund L.P. and the shareholders of ERA Taiwan holding the 24.38% of the issued share capital of ERA Taiwan stated above are third parties independent from the Directors, the chief executive, the Management Shareholders and substantial shareholders of the Company and their respective associates.

Far Eastern International Bank is a listed company in Taiwan.

Capital International Global Emerging Markets Private Equity Fund L.P. is an investment fund registered in the United States.

Global Venture Offshore Limited is indirectly wholly-owned by PCCW Enterprises Limited.

The 24.38% of the issued share capital of ERA Taiwan above represented the shareholdings held by the public shareholders in Taiwan.

Leung Chung Chu, Andrew is personally interested in 400,000 shares of RM1 each in, representing approximately 8.26% of the issued share capital of Winning Scope Sdn. Bhd., a company of which the Company is indirectly interested in 22.73% of its issued share capital.

DIRECTORS' AND CHIEF EXECUTIVES' RIGHT TO ACQUIRE SECURITIES

Pursuant to the Pre-IPO Share Option Scheme (the principal terms of which have been disclosed in the prospectus of the Company dated 12 June 2001), certain Directors have been granted options to subscribe for Shares at a subscription price of HK\$1 per share, details of which are set out as follows:

Name of Directors	Total number of Shares subject to the options	Approximate percentage of shareholding
<i>Executive Directors</i>		
Leung Chung Chu, Andrew	1,200,000	0.375%
Yau Sui Ha, Cecilia	600,000	0.1875%
Yau Kar Man	400,000	0.125%
<i>Independent non-executive Directors</i>		
Chan Kin Wo	400,000	0.125%
Yow Cecil	400,000	0.125%

The options were granted on 5 June, 2001. Each of the grantees to whom options have been granted under the Pre-IPO Share Option Scheme will be entitled to exercise (i) 50% of the options so granted to him/her (rounded down to the nearest whole number) at any time after the expiry of 12 months from the date of the grant of the options, and (ii) the remaining 50% of the options granted to him/her (rounded down to the nearest whole number) at any time after 24 months from the date of the grant of the options, and in each case, not later than 10 years from the date of the grant of the options.

Save for the Pre-IPO Share Option Scheme and the Share Option Scheme, both adopted by the Company on 5 June 2001, as at 30 June 2001, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the Directors and chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the Directors, chief executive or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right. During the period, no option was granted under the Share Option Scheme.

OUTSTANDING SHARE OPTIONS

As at 30 June 2001, options to subscribe for an aggregate of 8,260,000 Shares had been granted to certain Directors and employees of the Group under the Pre-IPO Share Option Scheme (the terms of which have been disclosed in the prospectus of the Company dated 12 June 2001), including options to subscribe for 3,000,000 Shares granted to certain Directors and 5,260,000 Shares granted to 66 employees of the Group. Particulars of the outstanding options granted to the Directors are set out in the section headed "Directors' and chief executives' right to acquire securities".

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in respect of directors, chief executive and their associates (as defined in the GEM Listing Rules), as at 30 June 2001, according to the register required to be kept under Section 16(1) of the SDI Ordinance, the following parties was interested in 10% or more of the issued share capital of the Company.

Name	Number of Shares held	Approximate percentage of issued Shares
Chiu Fu Sheng and his associates (as defined in the GEM Listing Rules)	180,000,000 (<i>Note</i>)	56.25%
ERA Taiwan	180,000,000 (<i>Note</i>)	56.25%
5D Technology Holdings Ltd.	180,000,000 (<i>Note</i>)	56.25%
Leung Chung Chu, Andrew	36,000,000	11.25%

Note: 5D Technology Holdings Ltd. is an investment holding company incorporated in BVI with all its shares held by ERA Taiwan. ERA Taiwan is a company incorporated in Taiwan with limited liability. Details of the shareholding of ERA Taiwan are set out in the section headed "Directors' and chief executives' interests in share capital".

Save as disclosed above, the Company had not been notified of any other interests representing 10% or more of the Company's issued share capital as at 30 June 2001.

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

During the six months ended 30 June 2001, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

SPONSOR'S INTEREST

As updated and notified by REXCAPITAL (Hong Kong) Limited ("Rexcapital"), the sponsor of the Company, neither Rexcapital nor its directors, employees nor any of their associates (as defined in the GEM Listing Rules) had any interest in the share capital of the Company as at 30 June 2001 pursuant to Rules 6.36 and 18.63 of the GEM Listing Rules.

Pursuant to a sponsor agreement dated 11 June 2001, entered into between the Company and Rexcapital, Rexcapital has received and will receive a fee for acting as the Company's retained sponsor for the period up to 31 December 2003.

COMPETING INTEREST

The Directors are of the view that ERA Taiwan, being the single largest shareholder of the Company, does not compete with the Group in respect of distribution businesses of home video products and theatrical, pay and free TV rights distribution because of the geographical differences. However, the Directors are of the view that the Internet projects or businesses of ERA Taiwan may continue to expand and there is a risk that the future Internet projects or businesses of ERA Taiwan may compete with the Group especially in the areas of e-commerce.

AUDIT COMMITTEE

As required by Rules 5.23 to 5.25 of the GEM Listing Rules, the Company has established an audit committee with written terms of reference which deal clearly with its authority and duties. The audit committee's principal duties are the review and supervision of the Company's financial reporting process and internal control systems.

By Order of the Board
Leung Chung Chu, Andrew
Chairman

Hong Kong, 9 August, 2001