



Era Information & Entertainment Limited

年代資訊影視有限公司

(incorporated in the Cayman Islands with limited liability)



QUARTERLY REPORT

For the nine months ended 30 September 2001

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “EXCHANGE”)

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The Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (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 report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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 nine months ended 30 September 2001, together with the unaudited comparative figures for the corresponding periods in 2000:

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Turnover	2	27,331	26,175	92,293	75,195
Cost of sales		(21,030)	(17,896)	(65,659)	(52,135)
Gross profit		6,301	8,279	26,634	23,060
Other revenue		1,154	1	1,539	226
Portal promotion costs		(691)	(393)	(712)	(2,177)
Portal development costs		—	(1,036)	(1,509)	(2,266)
Distribution costs		(172)	(146)	(522)	(414)
Administrative expenses		(8,563)	(6,693)	(23,854)	(16,661)
Other operating expense		—	—	(5)	—
(Loss)/Profit from operations		(1,971)	12	1,571	1,768
Finance costs		(25)	(14)	(261)	(46)
Share of loss of associates		(124)	(236)	(467)	(996)
(Loss)/Profit before taxation		(2,120)	(238)	843	726
Taxation	3	(406)	(156)	(1,968)	(1,113)
Net loss attributable to shareholders		(2,526)	(394)	(1,125)	(387)
Loss per share	4				
— basic (cents)		(0.789)	(0.150)	(0.397)	(0.148)
— diluted (cents)		(0.788)	N/A	(0.396)	N/A

Notes:

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 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 nine months and three months ended 30 September 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 issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong.

2. Turnover

	For the three months ended 30 September		For the nine months ended 30 September	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Turnover				
Sales of home video products	23,993	20,807	85,504	61,887
Theatrical and television income	3,183	5,097	6,476	12,970
Online business income	155	271	313	338
	<u>27,331</u>	<u>26,175</u>	<u>92,293</u>	<u>75,195</u>

3. Taxation

Hong Kong profits tax was provided at the rate of 16% for the three months and the nine months ended 30 September 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 had 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. Loss per share

The calculation of basic loss per share is based on the unaudited net loss attributable to shareholders for the three months and nine months ended 30 September 2001 of approximately HK\$2,526,000 and HK\$1,125,000, respectively (three months and nine months ended 30 September 2000: approximately HK\$394,000 and HK\$387,000, respectively) and the weighted average number of 320,000,000 shares and 283,670,330 shares, respectively for the three months and nine months ended 30 September 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 had been outstanding throughout the three months and nine months ended 30 September 2001 and 2000.

The calculation of diluted loss per share for the three months and nine months ended 30 September 2001 was based on the unaudited net loss attributable to shareholders of approximately HK\$2,526,000 and HK\$1,125,000, respectively and the diluted weighted average number of approximately 320,393,333 shares and 283,833,029 shares, respectively in issue during the periods. They have been calculated after taking into account all dilutive instruments outstanding as at 30 September 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 nine months ended 30 September 2001 were approximately 393,333 shares and 162,699 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 loss per share is not presented for the three months and nine months ended 30 September 2000 because there were no dilutive potential ordinary shares in existence during the periods.

5. Movement in reserves

During the nine months ended 30 September 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
New issue on placing	57,420	—	—	57,420
Capitalisation of share premium	(2,617)	—	—	(2,617)
Shares issue expenses	(12,878)	—	—	(12,878)
Net profit for the six months' period ended 30 June 2001	—	—	1,401	1,401
Balance as at 30 June 2001	41,925	24,002	966	66,893
Net loss for the three months' period ended 30 September 2001	—	—	(2,526)	(2,526)
Balance as at 30 September 2001	41,925	24,002	(1,560)	64,367

For the nine months ended 30 September 2000, other than the loss for the period, there are no reserve movement.

INTERIM DIVIDEND

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the nine months ended 30 September 2001, the Group recorded a turnover of approximately HK\$92 million, representing a growth of approximately 23% as compared to the same period last year. Sales of home video products achieved a satisfactory increase of approximately 38% when compared with the corresponding period of last year.

The Group recorded a loss of approximately HK\$1.1 million and HK\$2.5 million for the nine months and three months ended 30 September 2001, respectively. Consignment arrangement entered with Warner Home Video (“Warner”) on 31 May 2001 for a period of three months had expired by the end of August 2001. Details of the consignment arrangement had been disclosed in the prospectus of the Company dated 12 June 2001. While the Group is still under negotiation with Warner for the amount of remaining stock to be bought by Warner, the value of unsold products which shall become obsolete cannot be ascertained for the time being. For prudence sake, a provision for stocks write-off was provided in the accounts for the unsold products.

Release of theatrical titles continued to be adversely affected by delays in production and release schedules of the Group’s licensor. During the period, the Group has invested in portal promotion, coinciding with the official launch of the online store in July 2001. In view of the weak market condition, it is anticipated that the return period for this business investment will be longer than previously expected.

Nevertheless, with its well-established relationships with major Hollywood studios and extensive distribution network, the home video products distribution business continued to be the major source of income to the Group. By securing additional distribution rights with Universal Pictures International BV and DreamWorks Home Entertainment Inc. in early 2001, the variety of the Group’s home video products broadened, providing a wider choice for customers as well as better revenue for the Group. During the three months’ period ended 30 September 2001 under review, the new titles released by the Group included “Hannibal”, “The Mexican” and “Cast Away”.

The Group has been actively exploring the Asian market and diligently looking for new sources of products in the region to cope with the increasing needs of the audiences. Further to the memorandum of understanding in respect of Toei of Japan signed in April 2001, a formal distribution agreement was signed in June 2001, securing more exclusive distribution rights for the Group. The Group believes that the quality and popularity of Toei’s programs will not only suit the needs of customers in the territory, but will also widen the variety of the Group’s home video product categories.

Prospects

In spite of the stagnant global economic conditions, the Group's home entertainment business has suffered comparatively less severe as it offers a form of entertainment for the whole family at a comparatively lower and more affordable price level. Additionally, in view of the recovery of the local film market, the Group expects both the home video products distribution and TV rights distribution businesses to benefit from this positive growth. Therefore, the Group will focus on obtaining additional products and label representations and acquiring more contents to capture emerging business opportunities.

Home video products distribution is expected to remain a steady source of income for the Group. The Group has commenced to distribute the home video products of four summer blockbusters. Among these attractions, "The Mummy Returns" and "Final Fantasy: The Spirits Within" have been distributed in the local market in October 2001 while other hot titles including "Jurassic Park 3" and "Shrek" will be distributed in the following months. In view of the overwhelming response to these films, the Group is optimistic with regard to the sales in home video products market. In addition, the Group will continue to source more marketable movie products and expand its distribution channels to increase the sales of its home video products and enlarge its market share.

Further to the memorandum of understanding signed with Era Communications Co., Ltd. ("ERA Taiwan") in April 2001, the Group has entered into a formal distribution agreement for distribution of certain TV programs with ERA Taiwan in October 2001. In the event where the annual total consideration or value of this transaction exceeds the higher of HK\$1,000,000 or 0.03% of the net tangible assets of the Group, the Company will apply for waiver from the Exchange and comply with all relevant requirements under Chapter 20 of the GEM Listing Rules accordingly. At the same time, the Group has successfully entered into a cooperation relationship with PCCW IMS Limited, pursuant to which it has become one of the eight content providers of its interactive information services platform NOW.com.hk. The Group will provide programs produced by ERA Taiwan to NOW.com.hk exclusively on an Internet Protocol base. In view of the liberation of the TV market and increasing number of TV operators in the region, the Group is committed to taking on more product representation and acquiring more contents to enrich its content library, expanding its customer base and generating better income in both its home video products distribution and TV rights distribution businesses.

Looking ahead, the Group will continue to capitalise on its business foundations, relationships with major Hollywood studios and distribution network to explore more quality and marketable products and to enhance the performance of its businesses.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARE CAPITAL

As at 30 September 2001, according to the register required to be kept by the Company under Section 29 of the Securities (Disclosure of interests) Ordinance (Chapter 396 of the Laws of Hong Kong, hereinafter referred to as the "SDI Ordinance") or as otherwise notified to the Company and the Exchange pursuant to the minimum standards of dealings by the Directors as referred to in Rule 5.40 of the GEM Listing Rules, the interests of the Directors and chief executives in the equity or debt securities of the Company or its associated corporation (within the meaning of the SDI Ordinance) 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 the British Virgin Islands (the "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 remaining 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 executives, the management shareholders and substantial shareholders of the Company and their respective associates (all relevant terms as defined in the GEM Listing Rules).

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 stated 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.

Save as disclosed above, as at 30 September 2001, none of the Directors or chief executives of the Company has any interest in the equity or debt securities of the Company or any of its associated corporations (as defined in the SDI Ordinance) as recorded in the register required to be maintained under Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Exchange pursuant to the minimum standards of dealing by Directors as referred to in Rule 5.40 of the GEM Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVES' RIGHT TO ACQUIRE SECURITIES

Pursuant to the pre-IPO share option scheme adopted by the Company on 5 June 2001 ("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 any event, 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 (“Share Option Scheme”), both adopted by the Company on 5 June 2001, as at 30 September 2001, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the Directors and chief executives 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 executives or their respective 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 under review, no option was granted under the Share Option Scheme.

OUTSTANDING SHARE OPTIONS

As at 30 September 2001, options to subscribe for an aggregate of 8,210,000 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 an aggregate of 3,000,000 Shares granted to certain Directors and an aggregate of 5,210,000 Shares granted to 65 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

As at 30 September 2001, according to the register required to be kept by the Company under Section 16(1) of the SDI Ordinance, the following parties were interested in 10% or more of the issued share capital of the Company (taking no account of the Shares which may be taken up under the options granted or to be granted under the Pre-IPO Share Option Scheme or Share Option Scheme).

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 the 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 party whose interests represents 10% or more of the Company’s issued share capital as at 30 September 2001.

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

During the three months ended 30 September 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 any of its directors, employees or their respective associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the share capital of the Company as at 30 September 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 fees 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, has not and will not directly compete with the Group in respect of the businesses of distribution of home video products, theatrical, pay and free TV rights because of 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 area 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 to review and supervise the Group's financial reporting process and internal control systems.

By Order of the Board
Leung Chung Chu, Andrew
Chairman

Hong Kong, 8 November 2001