



Era Information & Entertainment Limited
年代資訊影視有限公司
(Incorporated in the Cayman Islands with limited liability)



ANNUAL REPORT 2001

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

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 Exchange. Listed companies are not generally required to issue paid report 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.

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CORPORATE INFORMATION

Executive Director	Leung Chung Chu, Andrew (<i>Chairman</i>) Yau Sui Ha, Cecilia Yau Kar Man
Non-executive Director	Chiu Fu Sheng
Independent non-executive Director	Chan Kin Wo Yow Cecil
Registered office	Century Yard Cricket Square Hutchins Drive P.O. Box 2681GT George Town Grand Cayman Cayman Islands British West Indies
Head office and principal place of business	Units 1008-1018 10th Floor, Trans Asia Centre 18 Kin Hong Street Kwai Chung New Territories Hong Kong
Company secretary and Qualified accountant	Ng Wai Lun <i>FCCA, AHKSA</i>
Compliance officer	Leung Chung Chu, Andrew
Audit committee	Chan Kin Wo (<i>Chairman</i>) Yow Cecil
Authorised representatives	Leung Chung Chu, Andrew Ng Wai Lun
Sponsor	REXCAPITAL (Hong Kong) Limited Suite 3203, 32nd Floor 9 Queen's Road Central Hong Kong

CORPORATE INFORMATION

Legal adviser to the Company

as to Hong Kong law:
Sidley Austin Brown & Wood
49th Floor, Bank of China Tower
1 Garden Road
Central
Hong Kong

as to Cayman Islands law:
Conyers Dill & Pearman, Cayman
Zephyr House
Mary Street
George Town
Grand Cayman
Cayman Islands
British West Indies

Auditors and reporting accountants

RSM Nelson Wheeler
Certified Public Accountants
7th Floor, Allied Kajima Building
138 Gloucester Road
Hong Kong
www.rsmnelsonwheeler.com

**Principal share registrar and transfer office
in Cayman Islands**

Bank of Bermuda (Cayman) Limited
36C, Bermuda House
British American Centre
Dr. Roy's Drive
George Town
Grand Cayman
Cayman Islands
British West Indies

**Branch share registrar and transfer office
in Hong Kong**

Hong Kong Registrars Limited
2nd Floor, Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

Principal banker

The Hongkong and Shanghai Banking Corporation Limited
HSBC Main Building
1 Queen's Road Central
Hong Kong

Public Relations Consultant

Strategic Financial Relations Limited
Unit A, 29/F
Admiralty Centre I
18 Harcourt Road
Hong Kong
www.strategic.com.hk

Website

<http://www.erahk.com>

Stock Code

8043

SUMMARY FINANCIAL INFORMATION

The following is a summary of the published consolidated combined results of the Group prepared on the bases set out in note 1 below:

	Year ended 31 December		
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
TURNOVER	<u>118,353</u>	<u>103,146</u>	<u>68,020</u>
PROFIT FROM OPERATING ACTIVITIES	1,582	999	1,430
Finance costs	(273)	(61)	(6)
Share of losses of associates	<u>(800)</u>	<u>(704)</u>	<u>(501)</u>
PROFIT BEFORE TAXATION	509	234	923
Taxation	<u>(2,186)</u>	<u>(1,228)</u>	<u>(417)</u>
NET (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS	<u>(1,677)</u>	<u>(994)</u>	<u>506</u>

Notes:

1. The summaries of the combined results of the Group for the years ended 31 December 1999 and 2000 have been extracted from the Company's prospectus dated 12 June 2001. Such summaries were prepared from the audited financial statements of the companies now comprising the Group as if the current structure of the Group had been in existence throughout these financial years and were presented on the basis set out in note 3 to the financial statements. The consolidated results of the Group for the year ended 31 December 2001 are set out on page 22 of the financial statements.
2. To date, the only published audited consolidated balance sheets of the Group that have been prepared are those set out on pages 23 and 24 of the financial statements. The Group's combined balance sheet as at 31 December 2000 has been prepared on the basis as if the Group had been in existence as at that date.

CHAIRMAN'S STATEMENT

On behalf of the directors (the "Directors") of Era Information & Entertainment Limited (the "Company"), I am pleased to present the first annual results of the Company and its subsidiaries (the "Group") since our successful listing on GEM on 28 June 2001, raising net proceeds of approximately HK\$44.6 million. I believe the successful listing not only marked a major milestone in the Group's development, but also accelerates our business growth.

OPERATING RESULTS

For the year ended 31 December 2001, the Group recorded a turnover of approximately HK\$118.4 million (2000: HK\$103.1 million). Loss attributable to shareholders was approximately HK\$1.7 million (2000: HK\$1.0 million). The loss was mainly due to the disposal and provision for stocks write-off for unsold products of Warner Home Video ("Warner"), delays in production and release schedules of the Group's licensor and the loss attributable to the online business.

OVERVIEW

2001 was a year of challenge for the Company. With our committed efforts to strengthen business development, the Group took a number of healthy steps forward during the year under review.

We are encouraged by the further developments in obtaining new labels and product representations, reinforcing our home video products distribution, theatrical and TV rights distribution businesses. To push these business developments further forward, we have committed to and successfully secured additional distribution rights with Universal Pictures International BV ("Universal"), DreamWorks Home Entertainment Inc. ("DreamWorks") and Toei of Japan for the distribution of home video products, and with Era Communications Co., Ltd. ("ERA Taiwan") for the distribution of certain TV programs produced by ERA Taiwan. This has not only strengthened our relationships with Hollywood studios and with Asia's entertainment giants, but has also allowed us to provide a wider range of products for the choice of customers, achieving our ultimate goal of bringing in better income for the Group.

Making a good start to 2002, the Group successfully entered into a distributorship agreement with the top Hollywood studio, Paramount Home Entertainment International ("Paramount"), in January 2002, further demonstrating Hollywood's recognition and confidence in our leading status in the industry. Building on this encouraging development, we will continue to make every endeavour to obtain major labels and product representation to sustain our market position.

In view of the improving performance in the recent film market, we believe that our theatrical distribution business will benefit in the forthcoming year. For example, our first major theatrical release in January 2002, the highly acclaimed foreign blockbuster "The Lord of the Rings: The Fellowship of the Ring" ("The Lord of the Rings"), has been well received so far. We believe that this movie together with our soon to-be-released titles, which include a number of box-office hits with great casts, will make a significant contribution to the Group.

CHAIRMAN'S STATEMENT

The Group's mission is to establish our role as the leading entertainment group in the region. The Group is set to embark on a strategy of territorial expansion, building on our solid business foundation, relationships with the major Hollywood studios and our widespread industry experience. The continued economic growth in the People's Republic of China ("PRC") is expected to sound a positive note for the Group's further expansion. One of our major steps is to extend our businesses into the PRC where we plan to establish theatrical business through the building and operating of multiplex cinemas and the distribution of movies in the major cities in the forthcoming year. Looking to the future, we are committed to grasp every arising opportunity that brings synergies and contributes to the growth of the Group.

APPRECIATION

Finally, I, on behalf of the Directors, would like to extend our sincere gratitude to the management and staff for their commitment and contribution to the Group. Also, I would also like to express our appreciation to our business partners, customers and shareholders for their support to the Group.

By order of the Board

Leung Chung Chu, Andrew

Chairman

Hong Kong

21 March 2002

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

During the year ended 31 December 2001 under review, turnover of the Group was approximately HK\$118.4 million, representing an increase of approximately 15% over the previous year. Despite the unfavourable economic and spending atmosphere, turnover in sales of home video products achieved a growth of more than 26% when compared with that of last year.

The Group recorded a loss of approximately HK\$1.7 million, it was mainly due to loss in disposal of and the provision for stocks write-off for unsold Warner's products, which in aggregate amounted to approximately HK\$1.5 million. After the expiry of the consignment arrangement entered into with Warner in May 2001, details of which had been disclosed in the prospectus of the Group dated 12 June 2001, the Group is still under negotiation with Warner for the amount of remaining stock to be repurchased by Warner. Nevertheless, for prudence sake, a full provision for stocks write-off was provided in respect of such unsold Warner's products.

Unexpected delays in production and release schedules, especially those in relation to relatively good quality titles, of the Group's licensor had affected the Group's results adversely in theatrical and TV rights distribution businesses.

As the Group has launched its online CD/VCD/DVD store in July 2001, portal promotion and development costs of approximately HK\$2.2 million have been incurred for the year ended 31 December 2001. In view of the weak market condition, the Group expects its online business may need a longer period to pick-up. As a cost saving plan in the online business, the Group has terminated its online rental business by the end of 2001, while online sales business continues to operate.

BUSINESS REVIEW AND OUTLOOK

With the Group's well-established relationships with the major Hollywood studios and extensive distribution network, the home video products distribution business remains the major contributor to the Group's turnover during the year ended 31 December 2001 under review.

During the year ended 31 December 2001, the Group has committed in taking on additional label representations. Apart from existing distributorship agreements with Columbia Tristar Home Entertainment, Universal for DVD and Miramax Film Corp., the Group has successfully obtained the exclusive distribution rights of VCD of Universal, VCD and DVD products of DreamWorks and home video products of Toei of Japan in 2001, securing additional sources for its home video products. During the year ended 31 December 2001, the Group has distributed a number of blockbusters including "Cast Away", "Crouching Tiger, Hidden Dragon", "The Mummy Returns", "Shrek" and "Jurassic Park 3", among others, through its widespread distribution channels consisting of about 1,300 outlets. The performance of certain titles were highly promising, making a significant contribution to this segment of its business.

Other than home video products, the Group has distributed a number of popular theatrical titles during the year ranging from "Bounce", "Chocolat", "Spy Kids" to "Scary Movie 2".

MANAGEMENT DISCUSSION AND ANALYSIS

To widen product categories and enrich its content library, the Group is committed to obtaining more product representation and acquiring content. In October 2001, the Group entered into a formal distribution agreement with ERA Taiwan, granting the Group the right to distribute various TV programs from ERA Taiwan. In the event where the transaction arising therefrom is not exempted from the relevant requirements pursuant to Chapter 20 of the GEM Listing Rules, the Company may apply for waiver from the Exchange and will comply with all relevant requirements under Chapter 20 of the GEM Listing Rules. At the same time, the Group entered into a cooperation with PCCW IMS Limited to provide programs produced by ERA Taiwan to NOW.com.hk exclusively on an Internet Protocol basis.

PROSPECTS

In view of the improving performance of the local film market since the summer of 2001, the Group expects the home video products distribution, theatrical and TV rights distribution businesses to benefit from this positive growth. The Group therefore will focus on these core businesses, exploring more quality and marketable products to cater for the needs of customers. The Group is also actively pursuing territorial expansion via business diversification.

In January 2002, the Group has successfully entered into an exclusive distributorship agreement with one of Hollywood's top studios, Paramount, to distribute its DVDs and VCDs in Hong Kong and Macau. This has further strengthened the Group's linkage with Hollywood studios and enhanced the quality and excellence of its products.

The Group will distribute home video products for a number of titles for all its labels in 2002. Two new titles just released in February 2002 included "The Score" cast by Robert De Niro and "The One" cast by Jet Li. Other new titles to be released in the year of 2002 include a number of box-office attractions such as "Vanilla Sky" cast by Tom Cruise, the highly successful "ET", "Panic Room" cast by Jodie Foster, "Men in Black 2" cast by Will Smith, "Black Hawk Down" directed by Ridley Scott and "Spider-Man".

In addition to the above titles, DreamWorks' "A Beautiful Mind" will also be released in 2002. It has been nominated for 8 awards in the 74th Academy Awards (Oscar) and has garnered the awards of Best Actor and Best Supporting Actress in the 54th British Academy of Film and Television Arts Awards ("BAFTA Awards"). It has received 6 nominations and became the winner of 4 awards in the 59th Golden Globe Awards for Best Motion Picture-Drama, Best Actor, Best Supporting Actress and Best Screenplay. In future, the Group will continue to procure the exclusive rights for additional reputable label representations, further expanding the range of its movie products.

Films that were delayed for distribution in 2001 are scheduled for release in 2002. In January 2002, the Group distributed the latest foreign blockbuster, "The Lord of the Rings". The movie has swept several film award presentations as a big winner. In addition, it has also been nominated for 13 awards in the 74th Academy Awards (Oscar) and has received 5 BAFTA Awards including Best Picture and Best Director etc. In view of the popularity generated and favourable comments received in relation to this film both overseas and locally, the Group believes that this movie will generate promising returns to the Group. Moreover, additional titles with well-known casts will soon be brought to Hong Kong by the Group. These include "Heaven" cast by Cate Blanchett, "John Q" cast by Denzel Washington and "Birthday Girl" starring Nicole Kidman, among others.

MANAGEMENT DISCUSSION AND ANALYSIS

Benefiting from the PRC's entry to WTO, the boom in the PRC's economy as well as liberation of the regulatory system in film distribution and exhibition are expected to continue. In view of the immense potential of film distribution market in the PRC, the Group has commenced negotiation with certain PRC business partners for a possible co-operation of theatrical business in this market. The preliminary proposal includes building and operating multiplex cinemas and distribution of films in some major cities in the PRC in the forthcoming year. The Group believes that this preliminary proposal, if materialised, may create a new income stream in the medium and long term.

With these plans in place, the Group is ready to capitalise on every market opportunity and accelerate business growth, reaping the fruits of its hard work in the years to come.

Use of proceeds from the Placing

The net proceeds from the listing of the Company's shares on GEM amounted to approximately HK\$44.6 million. During the period from 28 June 2001 (date of listing) to 31 December 2001, the Group has incurred the following amounts to achieve the business objectives as set out in the prospectus.

	<i>Note</i>	Amount to be applied up to 31 December 2001 as disclosed in the prospectus HK\$'million	Actual amount applied up to 31 December 2001 HK\$'million
Acquisition of entertainment related content including TV distribution rights and online distribution rights	1	2.0	0.2
Expansion of the home video and theatrical categories	2	8.6	17.8
Preparation for and development of the launching of online delivery services		—	—
TOTAL		10.6	18.0

Notes:

- Delay in spending is mainly due to the following reasons:
 - The commencement of operations by certain potential TV operators was much later than expected. At the same time, the distribution market of the online delivery of entertainment content is not as mature as the Group has anticipated.
 - There are certain delays in film production schedules by the Group's licensors.
- Out of the payment of HK\$17.8 million, HK\$10 million was paid as a deposit for the negotiation of certain licensing rights and the deposit was fully repaid to the Group in March 2002. Accordingly, the deposit was accounted for as prepayments and deposits in the consolidated balance sheet of the Group as at 31 December 2001.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

(For the six months ended 31 December 2001)

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

Actual business progress

Home Video Products Distribution

- | | |
|--|--|
| <ol style="list-style-type: none">1. Continue to develop network by distributing through more retail chain stores in Hong Kong and Macau | <p>The Group has secured an additional local chain stores and supermarkets for distribution of its home video products, namely Mannings and China Resource Supermarket (Hong Kong) Co., Ltd.</p> |
|--|--|

Theatrical, Pay/Free TV Rights Distribution

- | | |
|--|---|
| <ol style="list-style-type: none">1. Continue to take on additional product representations and acquire more contents | <p>The Group has secured theatrical distribution rights for a number of foreign movies including movie series of "The Lord of the Rings".</p> |
| <ol style="list-style-type: none">2. To finalise the formal distribution agreement with ERA Taiwan in respect of the grant of exclusive rights for the distribution of all or certain TV programs owned by ERA Taiwan in Asia excluding Taiwan | <p>Further to the memorandum of understanding in respect of ERA Taiwan entered into in April 2001, a formal distribution agreement was signed in October 2001, securing exclusive rights for the distribution of TV programs owned by ERA Taiwan.</p> |

Internet Business

- | | |
|--|--|
| <ol style="list-style-type: none">1. Widen range of products and services available for online stores | <p>The Group continues to increase the number of titles available for sale on the online store. However, the Group has terminated its online rental business by the end of 2001 as part of its cost saving effort.</p> |
| <ol style="list-style-type: none">2. Continue to increase the content of and provide more features to www.mov3.com | <p>The Group continues to update the content available on www.mov3.com to attract users.</p> |
| <ol style="list-style-type: none">3. Continue syndications with major websites | <p>During the period, negotiations with major websites for content syndications are still underway.</p> |
| <ol style="list-style-type: none">4. Commence negotiations of licences with music companies for online music delivery services | <p>The Group commenced preliminary negotiation with music companies for online music delivery services.</p> |

DIRECTORS AND SENIOR MANAGEMENT PROFILES

DIRECTORS

Executive Directors

Mr. LEUNG Chung Chu, Andrew, aged 45, is the Chairman and Compliance Officer of the Company. Mr. Leung is a co-founder of the Group. He is responsible for the finance, corporate policy making, strategic planning and overall management of the Group. Mr. Leung graduated with a bachelor of social sciences degree with honours from the University of Hong Kong. He has over 20 years' experience in the home video and entertainment related business.

Ms. YAU Sui Ha, Cecilia, aged 45, is also an executive director and the General Manager of Era Films (HK) Limited, a wholly-owned subsidiary of the Company principally engaged in promotion and distribution of films. She is responsible for the management and development of the Group's theatrical, pay and free TV distribution business. Ms. Yau graduated with a bachelor of science in management degree from Oklahoma State University. She has more than 10 years' experience in the films distribution business. Before joining the Group in November 1995, Ms. Yau was a senior management of a joint-venture company of three major Hollywood studios in Hong Kong.

Mr. YAU Kar Man, aged 43, is also an executive director of Era Digital Media Limited, a wholly-owned subsidiary of the Company principally engaged in the operation of entertainment related portals. He is responsible for the management and development of the Group's Internet and e-commerce business. Mr. Yau joined the Group in July 1992 and holds a higher diploma in accountancy from HK Polytechnic University. He has 10 years' experience in accounting and audit field.

Non-executive Director

Mr. CHIU Fu Sheng, aged 54, is a co-founder of the Group. He and his associates (as defined in the GEM Listing Rules) are the controlling shareholders of ERA Taiwan, which in turn is an indirect substantial shareholder of the Company. Mr. Chiu has extensive experience in the media entertainment business for more than 30 years. Mr. Chiu is also a director of ERA Taiwan.

Independent non-executive Directors

Mr. CHAN Kin Wo, aged 46, is a solicitor having been in active practice in Hong Kong since 1988. He is qualified also in England and Wales, Australia and Singapore. He opened his partnership firm Tsang, Chan & Woo, Solicitors & Notaries in 1992 and has been the partner since then. Mr. Chan was appointed as an independent non-executive Director in January 2001.

Mr. YOW, Cecil, aged 48, is experienced in both advertising and entertainment. He possesses over 20 years of experience in advertising, primarily in the management of advertising agencies. He was also involved in the business of content production and distribution for both TV and movies. He has a remarkable career managing major multinational advertising agencies, marketing consultant firms and production and distribution companies he either co-founded or founded. Mr. Yow was a co-founder and executive director of a Hong Kong listed company engaged in the production and distribution of movies and TV programming but has resigned in December 1999. Mr. Yow was appointed as an independent non-executive Director in January 2001.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

CONSULTANTS

Mr. CHAN Chi-Kwong, aged 41, graduated at the University of Warwick with a degree in Management Sciences in 1984. He has over 13 years of experience in various fields in the entertainment industry. His experiences include TV and video distribution, artist management, movie production and distribution, music production and distribution. He is currently the President of EMI Hong Kong. Mr. Chan provides general consultancy and advice on the music medium in respect of sales of CD in the online stores and the planned online delivery of music.

Mr. CHEN Shu, aged 73, Consultant of the Group, graduated from the faculty of industrial administration of Jilin University in 1954. Mr. Chen has extensive experience in the audio and video industry of the PRC. He has been the Chief of Division in the Arts Administrative Bureau, Ministry of Culture, and the president of China Audio & Video Publishing House, of the PRC. As one of the pioneers of the audio-video industry of the PRC, Mr. Chen has organised the establishment of the China Audio & Video Recording Co. and has been the director of it. Mr. Chen provides information, advice and general consultancy for the PRC video market.

SENIOR MANAGEMENT

Mr. KEUNG Chi Wai, aged 36, General Manager of ERA Home, joined the Group in 1997. He is responsible for the sales and marketing as well as business development of the Group's home video distribution business. Mr. Keung holds a bachelor of science degree and an MBA from Southwest Missouri State University. He has more than 9 years' experience in the field of sales, marketing and distribution both in Hong Kong and the PRC.

Mr. NG Wai Lun, aged 39, Group Financial Controller, joined the Group in March 2000. Mr. Ng is also the Company Secretary of the Company. He is responsible for the Group's finance, corporate projects and investments, company secretarial matters, as well as fund raising exercise. Mr. Ng is a fellow of the Association of Chartered Certified Accountants and an associate of the Hong Kong Society of Accountants. He gained extensive experience of over 15 years in auditing, finance and corporate projects with an international accounting firm, two Hong Kong listed companies and an overseas listed company.

Mr. WONG Wai Shun, Wilson, aged 31, Senior Technology Officer of ERA Digital Media, joined the Group in 1997. He is responsible for the technical support of the Group's computer system as well as the management of the Group's computer department. Mr. Wong graduated with a bachelor of science from Ulster University. He has 8 years' experience in the information technology field as well as system development.

DIRECTORS' REPORT

The Directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2001.

GROUP REORGANISATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 26 May 2000 under the Companies Law (Revised) of the Cayman Islands ("Companies Law"). Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on GEM, the Company became the holding company of the companies now comprising the Group on 5 June 2001. Further details of the Group Reorganisation and the subsidiaries acquired pursuant thereto are set out in notes 1, 16 and 26 to the financial statements.

On 28 June 2001, the shares of the Company were listed on GEM.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 16 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

The Group's turnover and contribution to operating result for the year is attributable to home video products distribution, theatrical and television rights distribution and online business principally derived in Hong Kong. An analysis of the Group's revenue and net loss for the year by principal activity and geographical area for the year ended 31 December 2001 is set out in note 33 to the financial statements.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2001 and the state of the affairs of the Group and of the Company at that date are set out in the financial statements on pages 22 to 59.

The Directors do not recommend the payment of any dividend for the year ended 31 December 2001.

DIRECTORS' REPORT

FIXED ASSETS

Details of the movements in the Group's fixed assets are set out in note 15 to the financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 16 to the financial statements.

BORROWINGS

Details of the Group's borrowings at the balance sheet date are set out in note 24 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the Company's share capital during the period from 26 May 2000 (date of incorporation) to 31 December 2001, together with the reasons therefor, and details of the Company's share options are set out in notes 26 and 27 to the financial statements, respectively.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in note 28 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2001, the Company's reserves available for cash distribution and/or distribution in specie amounted to approximately HK\$83,635,000. Under the Companies Law, the share premium of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the relevant law of the Cayman Islands, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities since the shares of the Company were listed on GEM on 28 June 2001.

DIRECTORS' REPORT

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for approximately 53% of the total sales for the year and sales to the largest customer included therein amounted to approximately 15%.

Purchases from the Group's five largest suppliers accounted for approximately 76% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 34%.

None of the Directors, any of their associates or shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

DIRECTORS

The Directors during the period from 26 May 2000 (date of incorporation) to the date of this report were as follows:

Executive directors

Mr. Leung Chung Chu, Andrew	(appointed on 26 May 2000)
Madam Yau Sui Ha, Cecilia	(appointed on 26 May 2000)
Mr. Yau Kar Man	(appointed on 26 May 2000)

Non-executive director

Mr. Chiu Fu Sheng	(appointed on 26 May 2000)
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Independent non-executive directors

Mr. Chan Kin Wo	(appointed on 15 January 2001)
Mr. Yow Cecil	(appointed on 15 January 2001)

In accordance with the Company's articles of association, Mr. Chan Kin Wo and Mr. Yow Cecil will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Each of the independent non-executive directors has been appointed for a term of two years commencing from 5 June 2001, and is subject to retirement by rotation in accordance with the Company's articles of association.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out on pages 11 to 12 of the annual report.

DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES

Details of the remuneration of the Directors and of the five highest paid employees of the Group are set out in notes 7 and 8 to the financial statements, respectively.

DIRECTORS' REPORT

RETIREMENT BENEFITS SCHEME

Details of the retirement benefits scheme of the Group and the employer's costs charged to the income statement for the year are set out in note 9 to the financial statements.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for a term of three years commencing from 1 June 2001, which will continue thereafter until terminated by either party giving not less than three months' notice in writing.

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

DIRECTORS' INTERESTS IN SHARES

At 31 December 2001, the interests of the Directors in the share capital of the Company or its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance", Chapter 396 of the Laws of Hong Kong)), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance, were as follows:

(a) **The Company**

Name of directors	Type of interest	Number of shares held
Mr. Leung Chung Chu, Andrew	Personal	36,000,000
Mr. Chiu Fu Sheng	Corporate (Note)	180,000,000

Note: The 180,000,000 shares are owned by 5D Technology Holdings Ltd. ("5D Technology") which is a company incorporated in the British Virgin Islands with all its shares held by Era Taiwan. ERA Taiwan is a company incorporated in Taiwan and Mr. Chiu Fu Sheng and his associates (as defined in the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules")) beneficially own 56.93% of the issued share capital of ERA Taiwan.

(b) **The associated corporations**

As mentioned above, Mr. Chiu Fu Sheng and his associates (as defined in the GEM Listing Rules) beneficially own 56.93% equity interest in ERA Taiwan which beneficially owns all the shareholding interest of 5D Technology. 5D Technology owns 56.25% equity interest of the Company.

Mr. 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, none of the Directors, chief executives or their associates had any interest in the issued share capital of the Company or any of its associated corporations, as defined in the SDI Ordinance.

DIRECTORS' REPORT

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to the Pre-IPO share option scheme (the "Pre-IPO Scheme") adopted by the Company on 5 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	Number of shares subject to the options as at 31 December 2001	Approximate percentage of shareholding
<i>Executive directors</i>		
Mr. Leung Chung Chu, Andrew	1,200,000	0.375%
Madam Yau Sui Ha, Cecilia	600,000	0.1875%
Mr. Yau Kar Man	400,000	0.125%
<i>Independent non-executive directors</i>		
Mr. Chan Kin Wo	400,000	0.125%
Mr. Yow Cecil	400,000	0.125%
	3,000,000	

The options were granted on 5 June 2001. Each of the Directors to whom options have been granted under the Pre-IPO 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.

No share options under the Pre-IPO Scheme were exercised by the Directors as at 31 December 2001.

Under the terms of the Company's Share option scheme (the "Scheme") adopted by the Company on 5 June 2001, the board of Directors may at its discretion grant options to Directors and employees of the Group to subscribe for shares in the Company. Details of the Scheme are set out in note 27 to the financial statements. The Scheme became effective upon its adoption by the Company on 5 June 2001.

No share options under the Scheme were granted to the Directors as at 31 December 2001.

Save as disclosed above, and other than in connection with the Group Reorganisation in preparation for the listing of the Company's shares, at no time during the year was the Company, any of its holding companies or any of its subsidiaries a party to any arrangements to enable the Directors, their respective spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN CONTRACTS

During the year, the Group had transactions with certain companies in which Mr. Leung Chung Chu, Andrew or Mr. Chiu Fu Sheng has beneficial interests. The particulars of these transactions are set out in note 32 to the financial statements.

Save as disclosed in note 32 to the financial statements, and other than in connection with the Group Reorganisation in preparation for the listing of the Company's shares, no director had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, any of its holding companies or any of its subsidiaries was a party during the year.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2001, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests in shares required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

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

Note: These interests have also been disclosed as corporate interests of Mr. Chiu Fu Sheng in the section headed "Directors' interests in shares" above, where further details of ERA Taiwan and 5D Technology are set out.

Save as disclosed above, no person, other than the Directors, whose interests are set out above, had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

CONNECTED TRANSACTIONS

The Group had entered into certain related party transactions during the year which would constitute connected transactions for the purpose of the GEM Listing Rules. Details of such transactions for the year are set out in note 32 to the financial statements. Save as disclosed therein, there were no other transactions required to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules.

DIRECTORS' REPORT

SPONSOR'S INTEREST

Immediately upon dealing in the shares on GEM on 28 June 2001 and pursuant to Rule 6.59 of the GEM Listing Rules, REXCAPITAL (Hong Kong) Limited ("Rexcapital") has received and will receive fees for acting as the Company's retained sponsor for the period up to 31 December 2003.

As at 31 December 2001, neither Rexcapital nor its directors, employees or 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 or any other company in the Group, including options or rights to subscribe for such shares, pursuant to Rules 6.36 and 18.63 of the GEM Listing Rules.

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 television 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.

Save as disclosed above, the Directors are not aware of, as at 31 December 2001, any business or interest of each director, initial management shareholder and the respective associates of each that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

AUDIT COMMITTEE

The Company established an audit committee (the "Committee") on 5 June 2001 with written terms of reference for the purpose of reviewing and providing supervision over the financial reporting process and internal control systems of the Group. The Committee comprises the two independent non-executive directors, Mr. Chan Kin Wo and Mr. Yow Cecil. Two meetings were held during the current financial year.

BOARD PRACTICES AND PROCEDURES

The Company has complied with Board Practices and Procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules since the shares of the Company were listed on GEM on 28 June 2001.



DIRECTORS' REPORT

AUDITORS

RSM Nelson Wheeler retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Leung Chung Chu, Andrew

Chairman and Executive Director

Hong Kong

21 March 2002

AUDITORS' REPORT

RSM Nelson Wheeler

Certified Public Accountants
羅申美會計師行

To the shareholders of

ERA INFORMATION & ENTERTAINMENT LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 22 to 59 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the Company and of the Group as at 31 December 2001 and of the results and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

RSM Nelson Wheeler

Certified Public Accountants

Hong Kong
21 March 2002

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2001

	<i>Notes</i>	2001 HK\$'000	2000 HK\$'000
TURNOVER	4	118,353	103,146
Cost of sales		(83,851)	(73,945)
Gross profit		34,502	29,201
Other revenue	4	2,115	300
Portal promotion costs		(716)	(2,269)
Portal development costs		(1,509)	(3,213)
Distribution costs		(1,361)	(600)
Administrative expenses		(30,714)	(22,418)
Other operating expenses		(735)	(2)
PROFIT FROM OPERATING ACTIVITIES	5	1,582	999
Finance costs	6	(273)	(61)
Share of losses of associates		(800)	(704)
PROFIT BEFORE TAXATION		509	234
Taxation	10	(2,186)	(1,228)
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS	11, 28	(1,677)	(994)
Loss per share — basic	13	HK(0.57)cents	HK(0.38) cents

Other than the net loss attributable to shareholders for the year, the Group had no recognised gains or losses. Accordingly, a consolidated statement of recognised gains and losses is not presented in the financial statements.

The notes on pages 27 to 59 form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

31 December 2001

	<i>Note</i>	2001 HK\$'000	2000 HK\$'000
NON-CURRENT ASSETS			
Film rights	14	3,544	1,041
Fixed assets	15	3,694	4,586
Interests in associates	17	156	956
Club membership	19	650	650
		<hr/> 8,044	<hr/> 7,233
CURRENT ASSETS			
Inventories	20	7,921	8,661
Current portion of film rights	14	11,807	5,665
Films production in progress		258	229
Trade and other receivables	21	20,539	18,310
Prepayments and deposits		15,975	4,646
Bank and cash balances	22	26,562	7,476
		<hr/> 83,062	<hr/> 44,987
CURRENT LIABILITIES			
Trade and other payables	23	22,419	27,529
Provision for taxation		1,267	873
Current portion of obligations under finance leases	24	187	207
		<hr/> 23,873	<hr/> 28,609
NET CURRENT ASSETS		<hr/> 59,189	<hr/> 16,378
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/> 67,233	<hr/> 23,611
NON-CURRENT LIABILITIES			
Obligations under finance leases	24	154	341
Loans from shareholders	25	—	3,700
		<hr/> 154	<hr/> 4,041
NET ASSETS		<hr/> 67,079	<hr/> 19,570

The notes on pages 27 to 59 form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

31 December 2001

	Note	2001 HK\$'000	2000 HK\$'000
CAPITAL AND RESERVES			
Share capital	26	3,200	3
Reserves	28	<u>63,879</u>	<u>19,567</u>
SHAREHOLDERS' FUNDS		<u><u>67,079</u></u>	<u><u>19,570</u></u>

Leung Chung Chu, Andrew
Chairman and Executive Director

Yau Kar Man
Executive Director

The notes on pages 27 to 59 form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2001

	Note	2001 HK\$'000	2000 HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	29(a)	36,717	41,127
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		371	88
Interest element on finance lease payments		(55)	(61)
Interest on loans from shareholders		(218)	—
Net cash inflow from returns on investments and servicing of finance		98	27
TAXATION			
Hong Kong profits tax paid		(1,792)	(789)
INVESTING ACTIVITIES			
Purchases of fixed assets		(1,286)	(3,619)
Purchases of film rights		(59,932)	(38,423)
Increase in investments in associates		—	(306)
Repayment of loan to an associate		—	10
Proceeds from disposals of fixed assets		2	106
Net cash outflow from investing activities		(61,216)	(42,232)
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES		(26,193)	(1,867)
FINANCING ACTIVITIES	29(b)		
Net proceeds from issue of share capital		45,186	—
Advance from shareholders		300	3,700
Advance of an interest-bearing loan from a shareholder		5,015	—
Repayment of an interest-bearing loan to a shareholder		(5,015)	—
Repayment of obligations under finance leases		(207)	(239)
Net cash inflow from financing activities		45,279	3,461
INCREASE IN CASH AND CASH EQUIVALENTS		19,086	1,594
Cash and cash equivalents at 1 January		7,476	5,887
Effect of foreign exchange rate changes		—	(5)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		26,562	7,476
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		26,562	7,476

The notes on pages 27 to 59 form an integral part of these financial statements.

BALANCE SHEET

31 December 2001

	Note	2001 HK\$'000	2000 HK\$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	16	<u>55,866</u>	<u>—</u>
CURRENT ASSETS			
Other receivables		<u>90</u>	<u>—</u>
Prepayments and deposits		<u>10,119</u>	<u>23</u>
Bank and cash balances		<u>21,760</u>	<u>—</u>
		31,969	23
CURRENT LIABILITIES			
Other payables	23	<u>1,000</u>	<u>131</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>30,969</u>	<u>(108)</u>
NET ASSETS/(LIABILITIES)		<u>86,835</u>	<u>(108)</u>
CAPITAL AND RESERVES			
Share capital	26	<u>3,200</u>	<u>—*</u>
Reserves	28	<u>83,635</u>	<u>(108)</u>
SHAREHOLDERS' FUNDS/(DEFICIENCY ON SHAREHOLDERS' FUNDS)		<u>86,835</u>	<u>(108)</u>

* Represent share capital of HK\$0.10

Leung Chung Chu, Andrew
Chairman and Executive Director

Yau Kar Man
Executive Director

The notes on pages 27 to 59 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

1. GROUP REORGANISATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 26 May 2000 under the Companies Law. Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on GEM, the Company became the holding company of the companies now comprising the Group on 5 June 2001. Further details of the Group Reorganisation and the subsidiaries acquired pursuant thereto are set out in notes 16 and 26 to the financial statements and in the Company's prospectus dated 12 June 2001.

2. CORPORATE INFORMATION

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 16 to the financial statements. There were no changes in the nature of the principal activities of the Group during the year.

3. SUMMARY OF SIGNIFICANT PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

These financial statements 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 Hong Kong Companies Ordinance. They have been prepared under the historical cost convention as modified by revaluation of certain investments.

Basis of presentation and consolidation

The Group Reorganisation involved companies under common control, and for accounting purpose, the Company and its acquired subsidiaries are regarded and accounted for as a continuing group. The consolidated financial statements have been prepared using the merger basis of accounting as a result of the Group Reorganisation completed on 5 June 2001. Under this basis, the Company has been treated as the holding company of its subsidiaries for the financial years presented or since their respective dates of incorporation where this is a shorter period, rather than from the date of acquisition of the subsidiaries. Accordingly, the results and cash flows of the Group for the years ended 31 December 2001 and 2000 include the results and cash flows of the Company and its subsidiaries with effect from 1 January 2000 or since their respective dates of incorporation where this is a shorter period. The comparative consolidated balance sheet as at 31 December 2000 has been prepared on the basis that the Group had been in place at that date.

In the opinion of the Directors, the consolidated financial statements prepared on the above basis present more fairly the results, cash flows and the state of affairs of the Group as a whole.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

3. SUMMARY OF SIGNIFICANT PRINCIPAL ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue from the sales of home video products is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the home video products are delivered to customers and title has been passed.

Theatrical income is recognised based on the time when the film is released.

Revenue from the distribution of film in television is recognised based on the time when the film materials are delivered.

Online business income comprises revenue from the sales of home video products and advertising income.

Advertising income is recognised over the period in which the advertisements are displayed.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Revenue from the provision of services is recognised when the services are rendered.

Portal development costs

Costs incurred in the development of new portals and enhancement of existing portals, including costs incurred in the development and enhancement of contents, are expensed as incurred.

Finance leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing.

Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases but are depreciated over their estimated useful lives.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

3. SUMMARY OF SIGNIFICANT PRINCIPAL ACCOUNTING POLICIES *(continued)*

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the income statement on a straight-line basis over the lease terms.

Foreign currency translation

Transactions in foreign currencies are translated into Hong Kong dollars at the applicable rates of exchange ruling on the transaction dates. Monetary assets and liabilities in foreign currencies at the balance sheet date are translated at the rates of exchange ruling at that date. Profits and losses resulting from this translation policy are dealt with in the income statement.

The financial statements of associate expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves.

Retirement benefit costs

The Group's contribution to the Mandatory Provident Fund scheme are expensed as incurred.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowable.

Deferred taxation is provided using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and for financial reporting purposes, to the extent that it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Film rights

Film rights represent license fees prepaid and/or payable by instalments under licensing agreements for the reproduction and distribution of video products, of films in theatre and television, and sub-licensing of film titles, in specified geographical areas and time periods.

Film rights are stated at cost less amortisation. Provision is made against film rights to the extent which they are not expected to generate any future revenue for the Group.

The portion of film rights expected to be recouped within twelve months of the balance sheet date is reported as a current asset. The portion of film rights expected to be recouped in more than twelve months from the balance sheet date is reported as a non-current asset.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

3. SUMMARY OF SIGNIFICANT PRINCIPAL ACCOUNTING POLICIES *(continued)*

Film rights *(continued)*

The attributable license fees of purchased film titles are amortised on a systematic basis over the underlying license periods, with reference to projected revenue, according to the following:

- video products : upon sales of video products;
- theatrical release : when films are released in theatre; and
- television release : when film materials are delivered.

Fixed assets

Fixed assets 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 fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the year 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 fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over the estimated useful life of 4 years.

The gain or loss on disposal or retirement of a fixed asset recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Subsidiaries

Subsidiaries are companies in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of Directors.

The Company's interests in subsidiaries are stated at cost less impairment losses, if any. The results of subsidiaries are accounted for on the basis of dividends received and receivable.

Associates

Associates are companies in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating decisions.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and reserves respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

3. SUMMARY OF SIGNIFICANT PRINCIPAL ACCOUNTING POLICIES *(continued)*

Investment securities

Investment securities are stated at cost less impairment losses, if any.

Club membership

Club membership which is held for non-trading purpose is stated at fair value at the balance sheet date. Changes in the fair value of club membership is credited or debited to the investment revaluation reserve until the club membership is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the net sales proceeds and the carrying amount of the club membership, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the income statement.

Transfer from the investment revaluation reserve to the income statement as a result of impairments are written back in the income statement when the circumstances and events leading to the impairment cease to exist.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted-average basis and includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is determined based on the estimated selling prices in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. If the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from sale in an arm's length transaction; value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if that is not possible, for the cash-generating unit.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment no longer exists or has decreased. The reversal is recorded in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

3. SUMMARY OF SIGNIFICANT PRINCIPAL ACCOUNTING POLICIES *(continued)*

Related parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Cash equivalents

Cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Inter-segment pricing is based on similar terms as those available to other external parties.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, borrowings, corporate and financing expenses, and corporate revenue.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

4. TURNOVER AND REVENUE

An analysis of turnover and revenue is as follows:

	2001 HK\$'000	2000 HK\$'000
Turnover		
Sales of home video products	110,410	87,816
Theatrical and television release income	7,527	14,935
Online business income	416	395
	<u>118,353</u>	<u>103,146</u>
Other revenue		
Bank interest income	371	88
Distribution income	39	69
Dubbing income, net	6	143
Marketing fee income	1,500	—
Sponsorship income	199	—
	<u>2,115</u>	<u>300</u>
	<u><u>120,468</u></u>	<u><u>103,446</u></u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

5. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is stated after charging/(crediting):

	2001 HK\$'000	2000 HK\$'000
Amortisation of film rights	51,287	39,300
Auditors' remuneration	460	322
Bad debts written off	6	2
Cost of inventories sold	18,425	18,655
Depreciation		
Owned fixed assets	1,806	1,211
Leased fixed assets	172	140
Impairment losses	200	—
Operating lease rentals		
Land and buildings	2,281	1,901
Office equipment	14	10
Provision for doubtful debts	439	—
Provision for inventories	935	1,759
Staff costs including directors' remuneration	18,229	14,422
Gain on disposal of fixed assets	(2)	(106)
	<u> </u>	<u> </u>

6. FINANCE COSTS

	2001 HK\$'000	2000 HK\$'000
Interest on loan from a shareholder	218	—
Finance lease charges	55	61
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

7. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the GEM Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	2001 HK\$'000	2000 HK\$'000
Fees		
Executive directors	—	—
Non-executive director	—	—
Independent non-executive directors	114	—
Other emoluments		
Executive directors		
Basic salaries, allowances and benefits in kind	3,742	3,692
Discretionary bonuses	—	84
Retirement benefit scheme contributions	36	3
	<u>3,892</u>	<u>3,779</u>

The remuneration of the Directors fell within the following bands:

	Number of Directors	
	2001	2000
Nil to HK\$1,000,000	4	2
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$1,500,001 to HK\$2,000,000	—	—
HK\$2,000,001 to HK\$2,500,000	1	1
	<u>6</u>	<u>4</u>

During the year, three (2000: three) executive directors received emoluments of approximately HK\$2,092,000 (2000: HK\$2,165,000), HK\$1,095,000 (2000: HK\$1,054,000) and HK\$591,000 (2000: HK\$560,000), respectively. Two (2000: Nil) independent non-executive directors received emoluments of approximately HK\$57,000 (2000: Nil) and HK\$57,000 (2000: Nil), respectively, for the year. No remuneration was paid to the remaining one (2000: one) non-executive director during the year (2000: Nil).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

7. DIRECTORS' REMUNERATION *(continued)*

There was no arrangement under which a director waived or agreed to waive any remuneration during the year. In addition, no emoluments were paid by the Group to the Directors as an inducement to join the Group or as compensation for loss of office.

No value is included in Directors' remuneration in respect of share options granted during the year because, in the absence of a readily available market value for the options on the Company's shares, the Directors are unable to arrive at an accurate assessment of the value of the options granted. Details of the options granted to the Directors during the year are set out in the section "Directors' rights to acquire shares" in the Directors' Report.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2000: three) directors, details of whose remuneration are set out in note 7 above. The details of the remuneration of the remaining two (2000: two) non-director, highest paid employees are as follows:

	2001 HK\$'000	2000 HK\$'000
Basic salaries, allowances and benefits in kind	1,734	1,290
Discretionary bonuses	290	—
Retirement benefit scheme contributions	24	2
	<u>2,048</u>	<u>1,292</u>

The remuneration of the non-director, highest paid employees fell within the following bands:

	Number of employees	
	2001	2000
Nil to HK\$1,000,000	1	2
HK\$1,000,001 to HK\$1,500,000	1	—
	<u>2</u>	<u>2</u>

During the year, no emoluments were paid by the Group to any of the five highest paid employees as an inducement to join the Group or as compensation for loss of office.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

9. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme became effective on 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with employees when contributed into the MPF Scheme.

The total cost charged to the income statement of approximately HK\$550,000 (2000: HK\$45,000) represents contributions payable to the MPF Scheme by the Group at rates specified in the rules of the MPF Scheme. As at 31 December 2001, contributions of approximately HK\$83,000 (2000: HK\$47,000) due in respect of the current reporting period had not been paid over the MPF Scheme.

10. TAXATION

(a) The taxation charge comprises:

	2001	2000
	HK\$'000	HK\$'000
Hong Kong profits tax	<u>2,186</u>	<u>1,228</u>

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the year.

No provision for profits tax has been provided by the associates as they did not generate any assessable profits during the year.

Certain subsidiaries of the Company had tax losses with tax effect of approximately HK\$4 million (2000: HK\$3 million) as at 31 December 2001 for Hong Kong tax purposes which, subject to the agreement by the Inland Revenue Department, may be carried forward indefinitely and applied against future profits.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

10. TAXATION (continued)

- (b) No deferred taxation was provided as certain subsidiaries of the Company had substantial tax losses in excess of the tax allowances over depreciation while the effect of timing differences of other subsidiaries of the Company is not material.

The principal components of deferred taxation assets/(liabilities) of the Group not provided for as at 31 December 2001 are as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Tax effect of timing differences arising from:		
Tax losses carried forward	4,763	2,985
Excess of tax allowances over depreciation	(406)	(408)
	<u>4,357</u>	<u>2,577</u>

11. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The Group's net loss attributable to shareholders of approximately HK\$1,677,000 (2000: HK\$994,000) included a loss of HK\$810,000 (2000: HK\$108,000) which has been dealt with in the financial statements of the Company.

12. DIVIDEND

No dividends have been paid or declared by the Company during the year (2000: Nil).

13. LOSS PER SHARE

The calculation of basic loss per share is based on the Group's net loss attributable to shareholders for the year of approximately HK\$1,677,000 (2000: HK\$994,000) and the weighted average number of 292,827,397 shares (2000: 262,000,000 shares) deemed to be in issue during the year assuming the 262,000,000 shares issued pursuant to the Group Reorganisation described in note 1 to the financial statements had been outstanding throughout the years ended 31 December 2001 and 2000.

No diluted loss per share is presented as there was no dilutive potential ordinary shares during the years ended 31 December 2001 and 2000.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

14. FILM RIGHTS

	Group	
	2001	2000
	HK\$'000	HK\$'000
At beginning of year	6,706	7,583
Acquired during the year, at cost	59,932	38,423
Amortisation for the year	(51,287)	(39,300)
At end of year	15,351	6,706
Current portion	(11,807)	(5,665)
Non-current portion	3,544	1,041

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

15. FIXED ASSETS

Group

	Leasehold improvements	Computers	Furniture and fixtures	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost					
At 1 January 2001	3,638	2,001	2,233	644	8,516
Additions	81	1,162	43	—	1,286
Disposals	—	(35)	—	—	(35)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2001	3,719	3,128	2,276	644	9,767
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Accumulated depreciation					
At 1 January 2001	1,471	956	1,365	138	3,930
Charge for the year	930	570	317	161	1,978
Disposals	—	(35)	—	—	(35)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2001	2,401	1,491	1,682	299	5,873
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Impairment losses					
Charge for the year and at 31 December 2001	—	200	—	—	200
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net book value					
At 31 December 2001	<u>1,318</u>	<u>1,437</u>	<u>594</u>	<u>345</u>	<u>3,694</u>
At 31 December 2000	<u>2,167</u>	<u>1,045</u>	<u>868</u>	<u>506</u>	<u>4,586</u>

The aggregate net book value of the Group's fixed assets held under finance leases as at 31 December 2001 amounted to approximately HK\$369,000 (2000: HK\$592,000).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

16. INTERESTS IN SUBSIDIARIES

	Company	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	42,569	—
Due from subsidiaries	13,543	—
Due to subsidiaries	(246)	—
	55,866	—
	55,866	—

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation	Issued and fully paid share capital	Attributable equity interest held by the Company		Principal activities
			Direct	Indirect	
Era Information & Entertainment (BVI) Limited	British Virgin Islands	Ordinary US\$50,000	100%	—	Investment holding
Era Home Entertainment Limited	Hong Kong	Ordinary HK\$24,000,000	—	100%	Distribution of video products
Era Films (HK) Limited	Hong Kong	Ordinary HK\$2	—	100%	Promotion and distribution of films
Era Communications Limited	Hong Kong	Ordinary HK\$50,000	—	100%	Investment holding
Era Digital Media Limited	Hong Kong	Ordinary HK\$10,000	—	100%	Operation of entertainment related portals
Red River Agents Limited	Hong Kong	Ordinary HK\$2	—	100%	Advertising agent

All subsidiaries principally operate in Hong Kong.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

17. INTERESTS IN ASSOCIATES

	Group	
	2001 HK\$'000	2000 HK\$'000
Share of net assets	<u>156</u>	<u>956</u>

Particulars of the associates are as follows:

Name	Place of incorporation and operation	Attributable equity interest held by the Group	Principal activities
Winning Scope Sdn. Bhd.	Malaysia	22.73%	Operation of computer outlets and internet cafe
FinanceSec.com Limited	Hong Kong	21.11%	Dormant

18. INVESTMENT SECURITIES

	Group	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	—	—
Loan to an investee company	<u>254</u>	<u>254</u>
	254	254
Impairment losses	<u>(254)</u>	<u>(254)</u>
	<u>—</u>	<u>—</u>

Particulars of the investment securities are as follows:

Name	Place of incorporation	Class of shares	Attributable equity interest held by the Group	Principal activities
Carnival Home Entertainment Limited	Hong Kong	Ordinary	15%	Dormant

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

19. CLUB MEMBERSHIP

	Group	
	2001	2000
	HK\$'000	HK\$'000
Club membership, at market value	<u>650</u>	<u>650</u>

Club membership represents the corporate membership for Chung Shan Hot Spring Golf Club in the People's Republic of China.

20. INVENTORIES

The Group's inventories represent finished goods of home video products.

As at 31 December 2001, the carrying amount of inventories that are carried at net realisable value amounted to approximately HK\$569,000 (2000: HK\$1.2 million).

21. TRADE AND OTHER RECEIVABLES

	Group	
	2001	2000
	HK\$'000	HK\$'000
Trade receivables	18,485	18,073
Other receivables	<u>2,054</u>	<u>237</u>
	<u>20,539</u>	<u>18,310</u>

General credit terms of the Group range from 60 days to 90 days. The aged analysis of trade receivables is as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Current - 30 days	9,659	10,352
31 - 60 days	5,390	6,763
61 - 90 days	1,576	561
91 - 180 days	1,675	322
181 - 365 days	168	69
Over 1 year	<u>17</u>	<u>6</u>
	<u>18,485</u>	<u>18,073</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

22. BANK AND CASH BALANCES

Included in bank and cash balances of the Group are time deposits of HK\$100,000 (2000: HK\$100,000) and HK\$750,000 (2000: HK\$750,000) pledged by the Group to banks in respect of payment of advertising charges in favour of a newspaper publisher and provision of e-commerce service, respectively.

23. TRADE AND OTHER PAYABLES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Trade payables	10,603	12,768	—	—
Film rights payables	7,249	10,691	—	—
Other payables	4,389	3,405	1,000	103
Receipts in advance	70	236	—	—
Due to an associate	4	4	—	—
Due to related parties	104	425	—	28
	<u>22,419</u>	<u>27,529</u>	<u>1,000</u>	<u>131</u>

The aged analysis of trade payables is as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Current - 30 days	5,579	5,514
31 - 60 days	2,365	4,002
61 - 90 days	1,165	1,482
91 - 180 days	716	1,550
181 - 365 days	665	125
Over 1 year	113	95
	<u>10,603</u>	<u>12,768</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

23. TRADE AND OTHER PAYABLES *(continued)*

The aged analysis of film rights payables is as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Current - 30 days	3,330	3,616
31 - 60 days	562	1,628
61 - 90 days	582	68
91 - 180 days	198	197
181 - 365 days	493	1,055
Over 1 year	2,084	4,127
	<u>7,249</u>	<u>10,691</u>

The amounts due to an associate and related parties are unsecured, interest-free and have no fixed terms of repayment.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

24. OBLIGATIONS UNDER FINANCE LEASES

	Group			
	Minimum payments 2001 HK\$'000	Present value of payments 2001 HK\$'000	Minimum payments 2000 HK\$'000	Present value of payments 2000 HK\$'000
Amounts payable:				
Within one year	239	187	262	207
In the second year	197	154	239	187
In the third to fifth years, inclusive	—	—	197	154
	<hr/>	<hr/>	<hr/>	<hr/>
Total minimum finance lease payments	436	<u>341</u>	698	<u>548</u>
Future finance charges	<u>(95)</u>		<u>(150)</u>	
Total net finance lease payables	341		548	
Current portion	<u>(187)</u>		<u>(207)</u>	
Non-current portion	<u>154</u>		<u>341</u>	

25. LOANS FROM SHAREHOLDERS

Loans from shareholders were unsecured and interest-free.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

26. SHARE CAPITAL

	Company	
	2001	2000
	HK\$'000	HK\$
<i>Authorised:</i>		
10,000,000,000 (2000: 10,000,000) ordinary shares of HK\$0.01 (2000: HK\$0.10) each	<u>100,000</u>	<u>1,000,000</u>
<i>Issued and fully paid:</i>		
320,000,000 (2000: 1) ordinary shares of HK\$0.01 (2000: HK\$0.10) each	<u>3,200</u>	<u>0.10</u>

The comparative balance of the share capital as at 31 December 2000 as shown on the consolidated balance sheet represents the proforma share capital of the Company, arising from the transactions as described in note (iii) below, which was deemed to have been in issue throughout the years ended 31 December 2001 and 2000 with the basis of presentation and consolidation as referred to in note 3 to the financial statements.

The following changes in the Company's authorised and issued share capital took place between the period from 26 May 2000 (date of incorporation) to 31 December 2001:

- (i) On incorporation, the authorised share capital of the Company was HK\$1,000,000 divided into 10,000,000 shares of HK\$0.10 each, one share of which was allotted and issued for cash at par on 26 May 2000.
- (ii) On 5 June 2001, each of the issued and unissued shares having a par value of HK\$0.10 each in the share capital of the Company was subdivided into ten shares of HK\$0.01 each, and the authorised share capital of the Company was increased from HK\$1,000,000 to HK\$100,000,000 by the creation of a further 9,900,000,000 shares of HK\$0.01 each, ranking pari passu with the existing share capital of the Company.
- (iii) On 5 June 2001, as part of the Group Reorganisation described in note 1 to the financial statements, the Company issued an aggregate of 261,990 shares of HK\$0.01 each credited as fully paid in consideration for the acquisition of the entire issued share capital of Era Information & Entertainment (BVI) Limited (the "EIE (BVI)"). The excess of the fair value of the shares of EIE (BVI), determined on the basis of its consolidated net assets at that date, over the nominal value of the Company's shares issued and credited as fully paid in exchange therefor, amounted to approximately HK\$42,564,000 was credited to the Company's share premium account as set out in note 28.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

26. SHARE CAPITAL *(continued)*

- (iv) On 5 June 2001, a total of 261,738,000 shares of HK\$0.01 each were allotted and issued as fully paid at par to the holders of the shares whose names appeared on the register of members of the Company at that date, in proportion to their respective shareholdings, by way of the capitalisation of the sum of HK\$2,617,380 standing to the credit of the share premium account of the Company, conditional on the share premium account being credited as a result of the issue of new shares to the public on 26 June 2001 as detailed in (v) below.
- (v) On 26 June 2001, a total of 58,000,000 shares of HK\$0.01 each were issued at HK\$1 each to the public for a total cash consideration, before expenses, of HK\$58,000,000.

A summary of the above movements in the issued share capital of the Company is as follows:

	<i>Note</i>	Number of shares issued	Par value HK\$
Share allotted and issued for cash at par on incorporation	(i)	1	0.10
Sub-division of each of the Company's shares into ten shares	(ii)	10	0.10
Shares issued as consideration for the acquisition of the entire issued share capital of EIE (BVI) pursuant to the Group Reorganisation	(iii)	261,990	2,619.90
Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the issue of new shares to the public	(iv)	261,738,000	—
Proforma share capital as at 31 December 2000		262,000,000	2,620.00
Capitalisation of the share premium account as set out above	(iv)	—	2,617,380.00
New issue on public listing	(v)	58,000,000	580,000.00
Share capital as at 31 December 2001		320,000,000	3,200,000.00

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

27. SHARE OPTION SCHEME

Pursuant to written resolutions of the shareholders of the Company dated 5 June 2001, two share option schemes, namely Pre-IPO share option scheme and Share option scheme were adopted by the Company.

Pre-IPO share option scheme

In recognising the contribution of certain Directors, employees, consultants and advisors of the Group to the growth of the Group and/or the listing of the shares of the Company on GEM, the shareholders adopted a Pre-IPO share option scheme (the "Pre-IPO Scheme") on 5 June 2001. Pursuant to the terms of the Pre-IPO Scheme, 8,260,000 options to subscribe for shares of the Company were granted to five directors and certain employees, consultants and advisors of the Group on 5 June 2001 at an exercise price of HK\$1 per share. Each of the grantees is 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.

As at 31 December 2001, there were 7,970,000 outstanding share options granted under the Pre-IPO Scheme. No share options under the Pre-IPO Scheme were exercised as at 31 December 2001.

Share option scheme

Under the terms of the Share option scheme (the "Scheme") adopted by the Company, Directors are authorised, at its discretion, to invite any Directors and employees of the Group to take up options to subscribe for shares of the Company. The subscription price will be determined by the Directors, and will be equal to the higher of (i) the nominal value of the shares; (ii) the closing price per share of the Company as stated in the Exchange's daily quotation sheet on the date of the grant of the option, which must be a business day; and (iii) the average of the closing price per share of the Company as stated in the Exchange's daily quotation sheet for the five trading days immediately preceding the date of the grant of the options. Subject to certain conditions, the maximum number of shares in respect of which options may be granted under the Scheme, together with other schemes (including the 8,260,000 options so granted under the Pre-IPO Scheme), shall not, in aggregate, exceed 30% of the shares of the Company in issue from time to time. The Scheme became effective for a period of ten years commencing on the adoption of the Scheme on 5 June 2001. Further details of the Scheme are set out in the prospectus of the Company dated 12 June 2001.

No share options under the Scheme were granted as at 31 December 2001.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

28. RESERVES

	Share premium HK\$'000	Retained profits/ (Accumulated losses) HK\$'000	Total HK\$'000
Group			
At 1 January 2000	20,002	559	20,561
Net loss for the year	—	(994)	(994)
	<hr/>	<hr/>	<hr/>
At 31 December 2000	20,002	(435)	19,567
Increase in share capital of a subsidiary prior to the Group Reorganisation	4,000	—	4,000
Issue of shares (<i>note 26</i>)	57,420	—	57,420
Capitalisation issue of shares (<i>note 26</i>)	(2,617)	—	(2,617)
Share issue expenses	(12,814)	—	(12,814)
Net loss for the year	—	(1,677)	(1,677)
	<hr/>	<hr/>	<hr/>
At 31 December 2001	<u>65,991</u>	<u>(2,112)</u>	<u>63,879</u>
Reserves retained by:			
Company and subsidiaries	65,991	2,153	68,144
Associates	—	(4,265)	(4,265)
	<hr/>	<hr/>	<hr/>
	<u>65,991</u>	<u>(2,112)</u>	<u>63,879</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

28. RESERVES (continued)

	Share premium HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Company			
Loss for the period and at			
31 December 2000	—	(108)	(108)
Arising on acquisition of EIE (BVI) (note 26)	42,564	—	42,564
Issue of shares (note 26)	57,420	—	57,420
Capitalisation issue of shares (note 26)	(2,617)	—	(2,617)
Share issue expenses	(12,814)	—	(12,814)
Net loss for the year (note 11)	—	(810)	(810)
	<hr/>	<hr/>	<hr/>
At 31 December 2001	84,553	(918)	83,635
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The share premium account of the Group includes (i) the premium arising from the issue of shares during the year; and (ii) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group Reorganisation, as set out in note 1 to the financial statements, over the nominal value of the shares of the Company issued in exchange therefor.

The share premium account of the Company includes (i) the premium arising from the issue of shares during the year; and (ii) the difference between the then combined net assets value of the subsidiaries acquired pursuant to the Group Reorganisation, as set out in note 1 to the financial statements, over the nominal value of the shares of the Company issued in exchange therefor.

In accordance with the Companies Law, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

29. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operating activities to net cash inflow from operating activities:

	2001	2000
	HK\$'000	HK\$'000
Profit from operating activities	1,582	999
Depreciation	1,978	1,351
Amortisation of film rights	51,287	39,300
Bad debts written off	6	2
Provision for doubtful debts	439	—
Provision for inventories	935	1,759
Impairment losses	200	—
Gain on disposal of fixed assets	(2)	(106)
Bank interest income	(371)	(88)
Increase in inventories	(195)	(1,351)
Increase in trade and other receivables	(2,703)	(7,191)
Increase in prepayments and deposits	(11,329)	(3,852)
(Decrease)/increase in trade and other payables	(5,110)	10,304
	<hr/>	<hr/>
Net cash inflow from operating activities	36,717	41,127
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

29. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Analysis of changes in financing activities during the year:

	Shareholders' loans	Obligations under finance leases	Share capital and premium
	HK\$'000	HK\$'000	HK\$'000
At 1 January 2000	—	282	20,005
Inception of finance lease contracts	—	505	—
Cash inflow/(outflow) from financing activities:			
Advances from shareholders	3,700	—	—
Repayment of finance lease obligations	—	(239)	—
	<hr/>	<hr/>	<hr/>
At 31 December 2000	3,700	548	20,005
Cash inflow/(outflow) from financing activities:			
Advances from shareholders	300	—	—
Advance of an interest-bearing loan from a shareholder	5,015	—	—
Repayment of an interest-bearing loan to a shareholder	(5,015)	—	—
Repayment of finance lease obligations	—	(207)	—
Net proceeds from issue of share capital	—	—	45,186
Capitalisation of loans from shareholders as share capital of a subsidiary prior to the Group Reorganisation	(4,000)	—	4,000
	<hr/>	<hr/>	<hr/>
At 31 December 2001	<u>—</u>	<u>341</u>	<u>69,191</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

29. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Major non-cash transactions

- (i) The Group Reorganisation in preparation for the public listing of the Company's shares involved the acquisition of EIE (BVI) by the issue of shares of the Company, further details of which are set out in notes 1 and 26 to the financial statements.
- (ii) During the year the Group entered into finance leases in respect of fixed assets with a total capital value at the inception of the leases of HK\$Nil (2000: HK\$505,000).

30. CONTINGENT LIABILITIES

- (a) As at 31 December 2001, certain employees of the Group have completed the required number of years of service under the Hong Kong Employment Ordinance to be eligible for long service payments on termination of their employment. The Group is only liable to make such payments where the termination meets the required circumstances specified in the Ordinance. If the termination of all these employees met the circumstances required by the Ordinance, the Group's liability at 31 December 2001 would be approximately HK\$1,781,000 (2000: HK\$1,681,000). No provision has been made for this amount as at 31 December 2001.
- (b) Corporate guarantees of HK\$300,000 and HK\$2,000,000 were given by the Company to a newspaper publisher and a bank in respect of payment of advertising charges and the provision of e-commerce service, respectively, granted to certain subsidiaries.
- (c) On 19 February 2002, a previous licensor made a claim of approximately HK\$1.2 million against a subsidiary regarding disputes on certain costs of film rights, advertising charges and relevant costs relating to the years ended 31 December 1998 and 1999. The amount of approximately HK\$156,000 in respect of costs of film rights has been provided in the financial statements as at 31 December 2001. Provision of approximately HK1.1 million regarding the advertising charges and relevant costs has not been made in the financial statements as, in the opinion of the Directors, there will be no further probable loss to the Group.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

31. COMMITMENTS

As at 31 December 2001 the Group had the following commitments:

- (a) Operating lease commitments

	Group	
	2001	2000
	HK\$'000	HK\$'000
Total future minimum lease payments under non-cancellable operating leases in respect of office premises and office equipment are as follows:		
Within one year	109	2,299
In the second to fifth years, inclusive	5	114
	<u>114</u>	<u>2,413</u>

- (b) Other commitments

	Group	
	2001	2000
	HK\$'000	HK\$'000
Unpaid capital contribution for the investment in an associate	116	116
Unpaid film rights due to licensors	8,812	10,761
Software development costs	—	150
	<u>—</u>	<u>150</u>

The Company did not have any significant commitments as at 31 December 2001.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

32. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions with its related parties:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Distribution income received from		
— Era Communications Co., Limited (“ERA Taiwan”)	2	24
— Era International (HK) Limited (“EIHK”)	37	41
Loan interest paid to 5D Technology Holding Ltd. (“5D”) (note 1)	218	—
Film production cost paid to ERA Taiwan	13	123
Dubbing income received from an associate, Winning Scope Sdn. Bhd. (“WSSB”)	—	359
License fee paid to ERA Taiwan (note 2)	—	32
Advertising income received from an associate, FinanceSec.com Limited	—	269
	<u> </u>	<u> </u>

Mr. Chiu Fu Sheng, a director of the Company, is a major shareholder of ERA Taiwan, EIHK and 5D. Mr. Leung Chung Chu, Andrew, a director of the Company, is a shareholder of WSSB.

Notes:

1. Pursuant to a loan agreement entered into between 5D and the Group, 5D advanced approximately HK\$5 million for the period from 17 January 2001 to 9 July 2001 at 9.15% per annum. The loan interest paid to 5D amounted to approximately HK\$218,000.
2. Pursuant to an intellectual property rights agreement entered into between ERA Taiwan and the Group, ERA Taiwan granted to the Group an exclusive license to use “Era” trademark in Hong Kong and the People’s Republic of China commencing on 15 May 1998 for a period of 10 years and is subject to a renewal for a further 10 years. The Group is required to pay to ERA Taiwan an annual license fee of HK\$1 which is included in the above license fee paid.

Personal guarantees have been provided by Mr. Leung Chung Chu, Andrew, a director of the Company, in respect of continuing guarantee of HK\$750,000 in respect of payment of advertising charges in favour of certain publishers of newspapers and magazines. Unlimited personal guarantees have been provided by Mr. Leung Chung Chu, Andrew and Mr. Yau Kar Man, directors of the Company, to a bank in respect of the provision of e-commerce service to the Group. The above personal guarantees were released and replaced by corporate guarantees of the Company (note 30(b)) upon listing of the shares of the Company on GEM.

The abovementioned related party transactions would constitute connected transactions under the GEM Listing Rules but these transactions either fell within Rule 20.23 or Rule 20.25 of the GEM Listing Rules as the total consideration or annual total consideration (as the case may be) were less than the higher of (a) HK\$1,000,000 or (b) 0.03% of the consolidated net tangible assets of the Company. Such transactions were therefore exempted from the reporting, announcement and shareholders’ approval requirements pursuant to Chapter 20 of the GEM Listing Rules.

The independent non-executive directors reviewed the above connected transactions and confirmed that at the time of the transactions, they were carried out in the ordinary and usual course of business of the Group and on normal commercial terms and at terms mutually agreed between the parties, that were fair and reasonable and were in the interests of the shareholders of the Company as a whole.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

33. SEGMENTAL INFORMATION

(a) Primary reporting format — business segments

	Home video products distribution		Theatrical and television rights distribution		Online business		Eliminations		Consolidated	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
REVENUE										
External revenue	110,449	87,885	9,027	14,972	416	358	—	—	119,892	103,215
Inter-segment revenue *	649	125	20	—	2,500	1,275	(3,169)	(1,400)	—	—
Total revenue	<u>111,098</u>	<u>88,010</u>	<u>9,047</u>	<u>14,972</u>	<u>2,916</u>	<u>1,633</u>	<u>(3,169)</u>	<u>(1,400)</u>	<u>119,892</u>	<u>103,215</u>
RESULT										
Segment result	<u>14,399</u>	<u>11,125</u>	<u>(2,431)</u>	<u>137</u>	<u>(5,831)</u>	<u>(6,508)</u>	<u>68</u>	<u>(43)</u>	<u>6,205</u>	<u>4,711</u>
Unallocated corporate revenue									205	143
Unallocated corporate expenses									<u>(5,199)</u>	<u>(3,943)</u>
Operating profit excluding interest income									1,211	911
Interest expenses									(273)	(61)
Interest income									371	88
Share of losses of associates									<u>(800)</u>	<u>(704)</u>
Profit before taxation									509	234
Taxation									<u>(2,186)</u>	<u>(1,228)</u>
Net loss for the year									<u>(1,677)</u>	<u>(994)</u>

* Inter-segment revenue are charged with reference to prevailing market prices.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

33. SEGMENTAL INFORMATION (continued)

(a) Primary reporting format — business segments (continued)

	Home video products distribution		Theatrical and television rights distribution		Online business		Eliminations		Consolidated	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS										
Segment assets	45,361	42,817	10,542	4,990	3,401	3,548	(972)	(769)	58,332	50,586
Unallocated corporate assets									32,774	1,634
Consolidated total assets									91,106	52,220
LIABILITIES										
Segment liabilities	16,895	20,494	4,884	7,033	562	431	(952)	(600)	21,389	27,358
Unallocated corporate liabilities									2,638	5,292
Consolidated total liabilities									24,027	32,650
OTHER INFORMATION										
Capital expenditure	1,116	2,912	1,556	351	833	1,353	—	—	3,505	4,616
Depreciation and amortisation	49,584	34,116	3,180	6,308	501	227	—	—	53,265	40,651
Impairment losses	—	—	—	—	200	—	—	—	200	—
Non-cash expenses other than depreciation, amortisation and impairment losses	952	1,761	250	—	178	—	—	—	1,380	1,761

(b) No geographical analysis is presented as less than 10% of the Group's revenue and result is attributable to markets outside Hong Kong.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

34. ULTIMATE HOLDING COMPANY

The Directors consider Era Communications Co., Limited, a company incorporated in Taiwan, to be the Company's ultimate holding company.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of Directors on 21 March 2002.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the annual general meeting of ERA INFORMATION & ENTERTAINMENT LIMITED (the "Company") will be held at Botticelli, 2/F., Great Eagle Hotel, 8 Peking Road, Tsimshatsui, Kowloon, Hong Kong, on Thursday, 25 April 2002 at 9:30 a.m. for the following purposes:-

1. To receive and consider the audited consolidated financial statements and the reports of the directors and auditors for the year ended 31 December 2001.
2. To re-elect directors of the Company ("Directors") and to authorise the board of Directors of the Company ("Board of Directors") to fix the Directors' remuneration.
3. To re-appoint auditors and to authorise the Board of Directors to fix their remuneration.
4. As special business, to consider and if thought fit, pass the following resolutions as ordinary resolutions:-

A. **"THAT**

- (a) subject to paragraph (c) of this Resolution, the exercise by the Directors during the Relevant Period (as hereinafter defined) to allot, issue and deal with the new shares in the capital of the Company, and to make or grant offers, agreements and options which would or might require the exercise of such powers, be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this Resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;
- (c) the aggregate nominal amount of the share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to the following events, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of this Resolution and the said approval shall be limited accordingly:-
 - (i) a Right Issue (as hereinafter defined);
 - (ii) the exercise of any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and its subsidiaries and/or other eligible persons of shares or rights to acquire shares of the Company; or
 - (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of the cash payment for a dividend on shares of the Company in accordance with the articles of association of the Company; and

NOTICE OF ANNUAL GENERAL MEETING

- (d) for the purpose of this Resolution, “Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable law to be held; and
 - (iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting.

“Rights issue” means an offer of shares or other securities of the Company open for a period fixed by the Directors to holders of shares on the register on a fixed record date in proportion to their then holdings of such shares or class thereof (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside the Hong Kong Special Administrative Region of the People’s Republic of China).”

B. “THAT

- (a) subject to paragraph (b) of this Resolution, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase its own shares on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (“Stock Exchange”) or on any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (as amended from time to time) or of any other stock exchange, be and is hereby generally and unconditionally approved and authorised;
- (b) the aggregate nominal amount of the shares of the Company to be purchased by the Company pursuant to the approval in paragraph (a) of this Resolution during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution and the said approval shall be limited accordingly; and
- (c) for the purpose of this Resolution, “**Relevant Period**” means the period from the passing of this Resolution until whichever is the earliest of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable law to be held; and
 - (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting.”

NOTICE OF ANNUAL GENERAL MEETING

- C. “**THAT** conditional upon Resolutions 4A and 4B being passed, the aggregate nominal amount of the number of shares in the capital of the Company which are repurchased by the Company under the authority granted to the Directors as mentioned in Resolution no. 4B above shall be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to Resolution no. 4A above.”

On behalf of the Board

Leung Chung Chu, Andrew

Chairman

Hong Kong

26 March 2002

Head office and principal place of business:

Units 1008-1018, 10th Floor, Trans Asia Centre

18 Kin Hong Street

Kwai Chung

New Territories

Hong Kong

Notes:

- (1) A member of the Company entitled to attend and vote at the annual general meeting convened by the above notice is entitled to appoint another person as his proxy to attend and vote on his behalf. A proxy need not be a member of the Company but must attend the annual general meeting to represent the member.
- (2) In order to be valid, the form of proxy must be deposited with the Company's branch share registrars in Hong Kong, Hong Kong Registrars Limited, 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong together with any power of attorney or other authority, under which it is signed, or a notarially certified copy of that power or authority, not less than 48 hours before the time for holding the meeting.
- (3) In the case of joint registered holders of any shares of the Company, any one of such persons may vote at the annual general meeting, either personally or by proxy, in respect of such shares as if he/she was solely entitled thereto; but if more than one of such joint registered holders be present at the annual general meeting, either personally or by proxy, that one of the said persons so present whose name stands first on the register of members in respect of such shares shall be accepted to the exclusion of the votes of the other joint registered holders.