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ERA

Era Information & Entertainment Limited

年代資訊影視有限公司

(Incorporated in the Cayman Islands with limited liability)



# QUARTERLY REPORT

For the three months ended 31 March 2002



## **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.

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

This report, for which the directors (the “Directors”) of Era Information & Entertainment Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

## RESULTS

The Directors are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 31 March 2002, together with the unaudited comparative figures for the corresponding period in 2001:

		<b>For the three months ended 31 March</b>	
		<b>2002</b>	2001
	<i>Note</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
Turnover	2	<b>23,647</b>	35,526
Cost of sales		<b>(18,612)</b>	(25,211)
Gross profit		<b>5,035</b>	10,315
Other revenue		<b>52</b>	25
Portal promotion costs		—	(17)
Portal development costs		—	(872)
Distribution costs		<b>(172)</b>	(169)
Administrative expenses		<b>(7,564)</b>	(7,611)
(Loss)/Profit from operations		<b>(2,649)</b>	1,671
Finance costs		<b>(13)</b>	(14)
Share of loss of associates		—	(106)
(Loss)/Profit before taxation		<b>(2,662)</b>	1,551
Taxation	3	<b>(171)</b>	(870)
Net (loss)/profit attributable to shareholders		<b>(2,833)</b>	681
(Loss)/Earnings per share			
-basic (cents)	4	<b>(0.885)</b>	0.260

Note:

1. **Basis of preparation**

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

Pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of the Company's shares (the "Shares") of HK\$0.01 each on GEM, the Company became the holding company of the Group on 5 June 2001. The Reorganisation involved companies under common control, and the Company and its subsidiaries resulting from the Reorganisation were regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated results have been prepared as if the Group had been in existence throughout the three months ended 31 March 2002 and 2001.

All significant intercompany transactions and balances within the Group, including intercompany profits are eliminated on consolidation. The consolidated results have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong.

2. **Turnover**

	<b>For the three months ended 31 March</b>	
	<b>2002</b>	<b>2001</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Turnover		
Sales of home video products	<b>22,707</b>	32,743
Theatrical and television release income	<b>838</b>	2,747
Online business income	<b>102</b>	36
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	<b>23,647</b>	35,526
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3. **Taxation**

Hong Kong profits tax was provided at the rate of 16% for the three months ended 31 March 2002 (2001: 16%) on the estimated assessable profits arising in or derived from Hong Kong.

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

#### 4. (Loss)/Earnings per share

The calculation of basic (loss)/earnings per share is based on the unaudited net loss attributable to shareholders for the three months ended 31 March 2002 of approximately HK\$2,833,000 (three months ended 31 March 2001: profit of approximately HK\$681,000) and the weighted average number of 320,000,000 shares for the three months ended 31 March 2002 (three months ended 31 March 2001: 262,000,000 shares).

No diluted (loss)/earnings per share is presented as there was no dilutive potential ordinary shares during the periods.

#### 5. Movement in reserves

Movement in reserves during the periods are as follows:

	<b>Share premium</b> <i>HK\$'000</i>	<b>Retained profits/ (Accumulated losses)</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
Balance as at 1 January 2001	20,002	(435)	19,567
Net profit for the period	—	681	681
	<u>20,002</u>	<u>246</u>	<u>20,248</u>
Balance as at 31 March 2001	20,002	246	20,248
Balance as at 1 January 2002	65,991	(2,112)	63,879
Net loss for the period	—	(2,833)	(2,833)
	<u>65,991</u>	<u>(4,945)</u>	<u>61,046</u>

#### INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2002 (three months ended 31 March 2001: Nil).



## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

For the three months ended 31 March 2002, the Group recorded a turnover of approximately HK\$23.6 million (2001: approximately HK\$35.5 million) and a loss attributable to shareholders of approximately HK\$2.8 million (2001: a profit of approximately HK\$0.7 million).

Seasonal factor adversely affected the Group's sales of home video products. There were comparatively less blockbuster titles being released during the three months ended 31 March 2002. Home video products of various blockbuster titles, such as "Black Hawk Down", "Vanilla Sky" and "A Beautiful Mind", will be released in the second quarter of 2002. While other highly successful and box-office attraction titles, such as "Spider-Man", "Men in Black 2" and "Stuart Little 2", are coming soon in the second half of the year. The turnover of this business for the period under review was less than the same corresponding period of 2001, mainly due to the release of home video products of "Crouching Tiger, Hidden Dragon" in the first quarter of last year which generated a turnover of approximately HK\$9.4 million to the Group.

Various film titles that were delayed for release during the year 2001 are being scheduled for release after the first quarter of 2002. Thus, the theatrical business contributed modest income in the first quarter of 2002. Titles with well-known casts, such as "Birthday Girl" with Nicole Kidman and "John Q" cast by Denzel Washington, will soon be released in the second quarter of the year.

Performance of the theatrical titles released by the Group during the period under review was below the management's expectation, which adversely affected the Group's earnings during the period.

During the period under review, the home video products distribution business remained the major contributor to the Group's turnover. Further to the additional distribution agreements entered into with Universal Pictures International BV and DreamWorks Home Entertainment Inc. last year, the Group has successfully reached an exclusive distribution agreement with another major Hollywood studio, Paramount Home Entertainment International ("Paramount"), in January 2002 to distribute its DVDs and VCDs in Hong Kong and Macau. This further widens the choice of customers and demonstrates the good relationships established between the Group and Hollywood studios. During the period under review, new titles released by the Group included "The Score", "The One" and "American Pie 2".



At the beginning of 2002, the Group continued to distribute quality and marketable movies, and expects to benefit from the improving film market. In January 2002, the Group distributed the Oscar winning production and mega-blockbuster, “The Lord of the Rings: The Fellowship of the Ring”. While other titles released by the Group during the period under review included “Kate & Leopold”.

**Prospects**

Encouraged by the entering of the new distribution agreement with Paramount, the Group is gaining increasing momentum to obtain exclusive rights for additional label representation in future, as well as expanding the range of its movie products. Additionally, in view of the encouraging response to quality movies, the Group will continue to distribute quality films with famous stars to capture this trend and to improve contributions of this segment. At the same time, the Group will also seek more products source to enrich its content library and to cater for market demand.

Given the vast opportunities and potential arising from the PRC market after its accession to WTO, the Group has taken the initiative to expand into new horizons to tap these business opportunities, riding on its solid business foundations and competitive edge in the industry. The Group intends to operate theatrical business by building and operating multiplex cinemas and the distribution of films in the PRC. Negotiations with the PRC business partners for this proposal are underway.

Looking forward, the Group will continue to tap every opportunity to enhance its performance and contribution in the future.



## DIRECTORS' INTERESTS IN SHARES

At 31 March 2002, 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**

<b>Name of directors</b>	<b>Type of interest</b>	<b>Number of shares held</b>
Mr. Leung Chung Chu, Andrew	Personal	36,000,000
Mr. Chiu Fu Sheng	Corporate ( <i>Note</i> )	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 Communications Co., Ltd. ("Era Taiwan"). ERA Taiwan is a company incorporated in Taiwan and Mr. Chiu Fu Sheng and his associates (as defined in 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' AND CHIEF EXECUTIVES' RIGHT TO ACQUIRE SECURITIES

Pursuant to the pre-IPO share option scheme adopted by the Company on 5 June 2001 ("Pre-IPO Share Option Scheme"), 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:

<b>Name of Directors</b>	<b>Total number of Shares subject to the options as at 31 March 2002</b>	<b>Approximate percentage of shareholding</b>
<i>Executive Directors</i>		
Leung Chung Chu, Andrew	1,200,000	0.375%
Yau Sui Ha, Cecilia	600,000	0.1875%
Yau Kar Man	400,000	0.125%
<i>Independent non-executive Directors</i>		
Chan Kin Wo	400,000	0.125%
Yow Cecil	400,000	0.125%
	3,000,000	

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

Save for the Pre-IPO Share Option Scheme and the share option scheme ("Share Option Scheme"), both adopted by the Company on 5 June 2001, and the principal terms of which have been disclosed in the prospectus of the Company dated 12 June 2001, as at 31 March 2002, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the Directors and chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the Directors, chief executives or their respective spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right. During the period under review, no option was granted under the Share Option Scheme.

## OUTSTANDING SHARE OPTIONS

As at 31 March 2002, options to subscribe for an aggregate of 7,670,000 Shares had been granted to certain Directors and employees of the Group under the Pre-IPO Share Option Scheme. Particulars of the outstanding options granted to the Directors are set out in the section headed “Directors’ and chief executives’ right to acquire securities”. No share options under the Pre-IPO Share Option Scheme were exercised as at 31 March 2002.

## SUBSTANTIAL SHAREHOLDERS

As at 31 March 2002, according to the register required to be kept by the Company under Section 16(1) of the SDI Ordinance, the following parties were interested in 10% or more of the issued share capital of the Company (taking no account of the Shares which may be taken up under the options granted or to be granted under the Pre-IPO Share Option Scheme or Share Option Scheme).

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

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

Save as disclosed above, the Company had not been notified of any other party whose interests represents 10% or more of the Company’s issued share capital as at 31 March 2002.

## PURCHASE, SALE AND REDEMPTION OF THE COMPANY’S LISTED SECURITIES

For the three months ended 31 March 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.



## **SPONSOR'S INTEREST**

As updated and notified by REXCAPITAL (Hong Kong) Limited (“Rexcapital”), the sponsor of the Company, neither Rexcapital nor any of its directors, employees or their respective associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the securities of the Company, including options or rights to subscribe for such securities, as at 31 March 2002 pursuant to Rules 6.36 and 18.63 of the GEM Listing Rules.

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

## **COMPETING INTEREST**

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

## **AUDIT COMMITTEE**

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

By Order of the Board  
**Leung Chung Chu, Andrew**  
*Chairman*

Hong Kong, 11 May 2002