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Era Information & Entertainment Limited

年代資訊影視有限公司

(Incorporated in the Cayman Islands with limited liability)



Quarterly Report

For the nine months ended 30 September 2002

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

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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 (“Directors”) of Era Information & Entertainment Limited (the “Company”) are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months and the nine months ended 30 September 2002, together with the comparative unaudited consolidated results for the corresponding period in 2001 as follows:

	Note	For the three months ended 30 September		For the nine months ended 30 September	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	2	32,671	27,331	82,982	92,293
Cost of sales		(25,338)	(21,030)	(62,478)	(65,659)
Gross profit		7,333	6,301	20,504	26,634
Other revenue		78	1,154	440	1,539
Portal promotion costs		—	(691)	(2)	(712)
Portal development costs		—	—	—	(1,509)
Distribution costs		(185)	(172)	(666)	(522)
Administrative expenses		(7,807)	(8,563)	(23,148)	(23,854)
Other operating expenses		(159)	—	(237)	(5)
(Loss)/Profit from operations		(740)	(1,971)	(3,109)	1,571
Finance costs		(13)	(25)	(39)	(261)
Share of loss of associates		—	(124)	—	(467)
(Loss)/Profit before taxation		(753)	(2,120)	(3,148)	843
Taxation	3	(346)	(406)	(586)	(1,968)
Net loss attributable to shareholders		(1,099)	(2,526)	(3,734)	(1,125)
Loss per share	4				
- basic (cents)		(0.343)	(0.789)	(1.167)	(0.397)
- diluted (cents)		N/A	(0.788)	N/A	(0.396)

respectively (three months and nine months ended 30 September 2001: approximately HK\$2,526,000 and HK\$1,125,000, respectively) and the weighted average number of 320,000,000 shares for the three months and nine months ended 30 September 2002 (three months and nine months ended 30 September 2001: 320,000,000 shares and 283,670,330 shares, respectively deemed to be in issue during the periods assuming the 262,000,000 shares issued pursuant to the Reorganisation described in Note 1 above had been outstanding throughout the periods).

No diluted loss per share is presented for the three months and nine months ended 30 September 2002 as there was no dilutive potential ordinary shares during the periods.

The calculation of diluted loss per share for the three months and nine months ended 30 September 2001 was based on the unaudited net loss attributable to shareholders of approximately HK\$2,526,000 and HK\$1,125,000, respectively and the diluted weighted average number of approximately 320,393,333 shares and 283,833,029 shares, respectively in issue during the periods. They have been calculated after taking into account all dilutive instruments outstanding as at 30 September 2001. The effect of the dilutive potential ordinary shares resulting from the exercise of the outstanding share options on the weighted average number of shares in issue during the three months and nine months ended 30 September 2001 were approximately 393,333 shares and 162,699 shares, respectively which were deemed to have been issued at no consideration as if all outstanding share options had been exercised on the date the options were granted.

5. Movement in reserves

For the nine months ended 30 September 2002, other than the loss for the period, there are no movement in reserves.

Movement in reserves during the nine months ended 30 September 2001 is as follows:

	Share premium	Retained profits/ (Accumulated losses)	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance as at 1 January 2001	20,002	(435)	19,567
Increase in share capital of a subsidiary prior to the Reorganisation	4,000	—	4,000
Issue of shares	57,420	—	57,420
Capitalisation issue of shares	(2,617)	—	(2,617)
Share issue expenses	(12,814)	—	(12,814)
Net profit for the six months ended 30 June 2001	—	1,401	1,401
Balance as at 30 June 2001	65,991	966	66,957
Net loss for the three months ended 30 September 2001	—	(2,526)	(2,526)
Balance as at 30 September 2001	<u>65,991</u>	<u>(1,560)</u>	<u>64,431</u>

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2002 (nine months ended 30 September 2001: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

For the nine months ended 30 September 2002, the Group recorded a turnover of approximately HK\$83 million (2001: approximately HK\$92 million) and a loss attributable to shareholders of approximately HK\$3.7 million (2001: a loss of approximately HK\$1.1 million).

During the reporting period, sales of home video products continued to contribute the Group's major source of revenue. For the three months ended 30 September 2002, despite of the weak economic condition and low consumption atmosphere, turnover for this segment rose by about 29% to approximately HK\$31 million from approximately HK\$24 million in the previous corresponding period. Higher turnover for home video business was mainly due to the effective sales promotional programs of the Universal and DreamWorks VCD products.

In line with the Group's cost saving strategies and with regard to the online shopping market's uncertainties, the online store business was terminated to allow the re-allocation of the Group's resources into areas with better prospects for development. After the termination of the online store business, the remaining stocks of the online store will be sold through the Group's existing distribution network, nevertheless, a provision of HK\$250,000 was made in the accounts. Whereas, the prepaid costs written off for the termination of the online store was approximately HK\$159,000.

During the period under review, home video products of film titles released included box-office attractions such as "Panic Room" and "The Scorpion King" as well as the high rating TV program series of "Sex and The City". In addition, the Group also distributed VCD and DVD programs of Discovery Channel and National Geographic. The exclusive distribution right of these products were obtained by the Group in the second quarter of 2002. To broaden the range of home video products, the Group will continue to obtain additional labels, expanding its choice for customers. Home video products for highly successful box-office attractions, such as "Spider-Man", "Men in Black 2", "Stuart Little 2" and "The Sum of All Fears", will be released in the fourth quarter of 2002, and are expected to be a major source of revenue to the Group.

In view of the unfavourable market condition for local film exhibition business, the turnover and profits contribution from the theatrical, television release and film rights sub-licensing business is below the Group's expectation. The Group has slowed down the release of theatrical titles and will schedule the release of delayed theatrical titles by the end of 2002 with a cautious view to the market situation.

The Group has also been exploring new opportunities in other entertainment related business to broaden its revenue base. Noting the popularity of personal computers in daily lives and PC games as an alternative choice of home entertainment for Hong Kong people, the Group has been negotiating with potential partners to kick off PC games business. The Group successfully obtained distribution rights of the PC games from Vivendi Universal Games, Inc. Distribution of PC games started in September of 2002. This is expected to drive the Group's business forward. In addition to the distribution of PC games, the Group is also in the process of acquiring distribution right of console games, and continues to put more efforts in exploring the opportunity of online entertainment related services, including online games, to strengthen the Group's PC games and online businesses.

Anticipating that the demand for entertainment would step up as a result of improving living standards in the PRC, the Group is therefore studying the feasibility of the video distribution and film exhibition businesses in the PRC while closely watching the anti-piracy developments in the country. At the same time, the Group will continue its negotiations with PRC potential business partners to consider entering the country at a suitable time.

DIRECTORS' INTERESTS IN SHARES

At 30 September 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

Name of directors	Type of interest	Number of Shares held
Mr. Leung Chung Chu, Andrew	Personal	30,000,000
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.

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 30 September 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 30 September 2002, options to subscribe for an aggregate of 7,500,000 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 30 September 2002.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 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).

Name	Number of Shares held	Approximate percentage of issued Shares
Chiu Fu Sheng and his associates (as defined in the GEM Listing Rules)	180,000,000 (Note)	56.25%
ERA Taiwan	180,000,000 (Note)	56.25%
5D Technology	180,000,000 (Note)	56.25%

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 30 September 2002.

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

For the nine months ended 30 September 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 30 September 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, 7 November 2002