



Era Information & Entertainment Limited 年代資訊影視有限公司

ERA (incorporated in the Cayman Islands with limited liability)



ANNUAL REPORT 2002

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

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Corporate Information

Executive Director

Leung Chung Chu, Andrew (*Chairman*)
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 *FCCA, AHKSA*

Compliance officer

Leung Chung Chu, Andrew

Audit committee

Chan Kin Wo (*Chairman*)
Yow Cecil

Authorised representatives

Leung Chung Chu, Andrew
Ng Wai Lun

Sponsor

REXCAPITAL (Hong Kong) Limited
34/F COSCO Tower
Grand Millennium Plaza
183 Queen's Road Central
Hong Kong

Auditors

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
Rooms 1901-5, 19th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
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 and balance sheets of the Group prepared on the bases set out in notes 1 and 2 below:

	Year ended 31 December			
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
TURNOVER	<u>111,218</u>	<u>118,353</u>	<u>103,146</u>	<u>68,020</u>
(LOSS)/PROFIT FROM OPERATING ACTIVITIES	(4,275)	1,582	999	1,430
Finance costs	(52)	(273)	(61)	(6)
Share of losses of associates	<u>—</u>	<u>(800)</u>	<u>(704)</u>	<u>(501)</u>
(LOSS)/PROFIT BEFORE TAXATION	(4,327)	509	234	923
Taxation	(755)	<u>(2,186)</u>	<u>(1,228)</u>	<u>(417)</u>
NET (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS	<u>(5,082)</u>	<u>(1,677)</u>	<u>(994)</u>	<u>506</u>
	At 31 December			
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
Total assets	91,255	91,106	52,220	38,349
Total liabilities	(29,258)	<u>(24,027)</u>	<u>(32,650)</u>	<u>(17,941)</u>
NET ASSETS	<u>61,997</u>	<u>67,079</u>	<u>19,570</u>	<u>20,408</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 years ended 31 December 2001 and 2002 are set out on page 24 of the financial statements.
2. The consolidated balance sheets of the Group as at 31 December 2001 and 2002 are set out on page 25 of the financial statements. The Group's combined balance sheets as at 31 December 1999 and 2000 have been prepared on the basis as if the Group had been in existence as at that date.

Chairman's Statement

OPERATING RESULTS

On behalf of the directors (the "Directors") of Era Information & Entertainment Limited (the "Company") and its subsidiaries (the "Group"), I am pleased to announce the annual results for the year ended 31 December 2002. The Group recorded a turnover of approximately HK\$111.2 million (2001: approximately HK\$118.4 million). Loss attributable to shareholders was approximately HK\$5.1 million (2001: a loss of approximately HK\$1.7 million).

OVERVIEW

2002 created great challenges for market players in the entertainment industry. The continuing sluggish economic conditions and the 2002 FIFA World Cup resulted in a lower consumption environment, which particularly affected the entertainment business. This particularly had an adverse effect on our theatrical distribution business with performance falling below expectation during the year under review.

Despite the unfavourable market conditions, we continued our efforts to consolidate our core business. We have taken further steps into the development of the home video products distribution business by obtaining new label and product representation. The Group successfully secured the exclusive distribution rights of another major Hollywood studio, Paramount Home Entertainment International ("Paramount"), in January 2002. We also increased our range of home video products by securing additional distributorships for Discovery Channel and National Geographic programs.

Most important of all, in recognition of the Group's outstanding performance in the video distribution, Columbia Tristar Home Entertainment ("Columbia Tristar") awarded the Group as its 2002 Asia Licensee of the year. Building on this progress, we will continue to source additional label and product representation, providing a more varied and wider choice for our customers and also sustaining our market position.

Noting the increasing popularity of console, personal computer ("PC") and online games in Hong Kong, the Group started to distribute game products in the local market in late 2002. We obtained the distribution rights of the PC games of Vivendi Universal Games Inc. ("Vivendi Universal") in September 2002 and the distribution right of online games developed by Nexon Corporation, one of the largest online game software developers in Korea, in December 2002. We also succeeded in obtaining the distribution rights of the console games of Vivendi Universal with distribution started in January 2003. This diversification marks a significant milestone in our goal to become a major multimedia entertainment provider. In future, we intend to continue this diversification strategy.

As we are seeking to enter the People's Republic of China ("PRC") market at the appropriate time, we have been looking for suitable business partners to penetrate the video distribution and film exhibition market while also keeping a close eye on anti-piracy developments in the PRC. Looking ahead, we are committed to tapping every opportunity that arises, bringing synergies and contributing to the development of the Group.

Chairman's Statement

APPRECIATION

Finally, on behalf of the Directors, I would like to extend our thanks to the management and the staff for their commitment and contribution to the Group throughout the past year. I would also like to express our appreciation to our business partners, customers and shareholders for their continued support.

By order of the Board

Leung Chung Chu, Andrew

Chairman

Hong Kong, 18 March 2003

Management Discussion and Analysis

FINANCIAL PERFORMANCE

During the year ended 31 December 2002, due to unfavourable market conditions and low consumption atmosphere, the Group recorded a turnover of approximately HK\$111.2 million (2001: approximately HK\$118.4 million).

Turnover in the sales of home video products continued to contribute the major source of revenue for the Group. Sales of home video products amounted to approximately HK\$105.6 million, representing a slight decrease of approximately 4% when compared with that of last year. In addition to weak market conditions, the sales of home video products were further adversely affected by the 2002 FIFA World Cup matches during the mid of the year. However, turnover in sales of home video products for the three months ended 31 December 2002 increased by nearly 10% when compared with that of the corresponding period last year.

The weak local film market during most of the year adversely affected the turnover and contributions of the theatrical, televisions release and film rights sub-licensing business of the Group.

As the market of online sales of products was not pick-up to be matured as fast as the Group expected, turnover and contributions from the online business was below the management's expectation. With regard to the online shopping market's uncertainties and it was not expected to be matured in a short period of time, the online store business was terminated during the year which was also in line with the Group's cost saving strategies.

Distribution of PC games and online game started by late 2002. Contributions from this newly commenced business was not material during the year under review. However, turnover in the games distribution and online business increased by approximately 195% when compared with the turnover of online business of last year. The management expects this business segment to grow and contribute as a more substantial portion to the Group's revenue in the coming years.

BUSINESS REVIEW

Capitalising on the well-established relationships with the major Hollywood studios and the extensive distribution network of the Group, the home video products distribution business remained as the major contributor to the Group's turnover during the year under review.

In addition to the existing agreements with Columbia Tristar, Universal Pictures International BV and DreamWorks Home Entertainment Inc., the Group successfully entered into an exclusive distribution agreement with Paramount, another major Hollywood studio, to distribute their DVDs and VCDs in Hong Kong and Macau. The Group has also obtained the exclusive distribution rights to distribute VCD and DVD programs of Discovery Channel and National Geographic in Hong Kong. These moves have further enhanced the variety of the Group's quality home video products. The taking on of additional label representation during the year not only reinforced the Group's relationships with Hollywood's studios, but also demonstrated Hollywood's strong recognition and confidence in the abilities of the Group.

Management Discussion and Analysis

During the year, the Group distributed a number of blockbusters including "Vanilla Sky", "A Beautiful Mind", "Black Hawk Down", "Spider-Man", "Men in Black II", "Stuart Little 2", "Panic Room", "The Scorpion King" and "The Sum of All Fears", among others. To boost the sales of home video products, the Group launched various effective promotional and marketing campaigns through our widespread distribution network of over 1,300 outlets, to ensure steady performance in the home video products distribution business.

Facing the weak performance of the local film market, which occurred over much of the year under review, the Group has adopted a more cautious approach in scheduling the release of theatrical titles. Titles released during the year included "The Lord of the Rings: The Fellowship of the Ring", "John Q", "Birthday Girl" and "Kate & Leopold", among others.

In view of the high penetration of personal computers in Hong Kong and the popularity of console, PC and online games as alternative choices in home entertainment, the Group took initial steps to diversify into the console, PC and online games distribution business in Hong Kong, widening our product variety and revenue source. The Group started to distribute PC games from Vivendi Universal in September 2002. Several PC games including "The Lord of the Rings: The Fellowship of the Ring", "Emperor: Rise of Middle Kingdom" and "No One Lives Forever 2" were launched. The Group also obtained the distribution rights of the online game developed by the Korean-based Nexon Corporation and launched its popular online game "Asgard" in December 2002.

PROSPECTS

Home video products are expected to generate stable and significant income for the Group. The Group's core business has laid a solid foundation for the diversification of our business, broadening our horizons to engage in the games distribution business. This development marks a major leap forward in the Group's commitment to become a multimedia entertainment provider.

The Group will be distributing home video products with a number of titles from all our labels in 2003. New titles recently released include "So Close", "The Tuxedo" and a Chinese film title "Nine Girls & A Ghost". Other titles to be released in 2003 include a number of blockbusters and box-office attractions such as "Catch Me if You Can", "The Hulk", "Lara Croft and the Cradle of Life: Tomb Raider 2", "Terminator 3: Rise of the Machines" and "Charlie's Angels: Full Throttle". Looking to the future, the Group will continue with efforts to obtain the exclusive rights for additional label representation. We will also continue our promotional campaigns for home video products to heighten sales and explore more quality and marketable movie products.

In view of the conditions in the local film market, we will continue our cautious approach to select quality films and carefully schedule the release of films. Two films were released in February 2003, namely "Chicago" and "The Hours". The two highly acclaimed and award-winning movies have won a number of awards including the Best Picture Award in the two categories, namely Musical/Comedy and Drama, at the 60th Annual Golden Globe Awards. Recently, they were nominated for a number of Oscar Awards with 13 nominations for "Chicago" and 9 nominations for "The Hours" covering top awards such as Best Picture, Best Actress in a Leading Role, Best Actor in a Supporting Role, Best Actress in a Supporting Role and Best Directing, etc. In view of their strong casts and the universal high praise from critics for both films, the Group believes that these movies will generate positive results in Hong Kong. Other new titles which will soon arrive in Hong Kong through the Group's efforts in the first half of 2003 include "Frida" which has received 6 Oscar nominations such as Best Actress in a Leading Role, Best Art Direction and Best Costume Design, among others.

The diversification into the games distribution business marks a major development in the Group's business. The Directors expect this business to contribute a significant portion of revenue in the coming years. The Group will be launching more marketable PC games and online games, as well as console games. PC games to be distributed in 2003 include "WarCraft III: The Frozen Throne", "Jurassic Park: Operation Genesis" and "The Hulk". More new Korean online games from Nexon Corporation will also be brought to Hong Kong soon. Meanwhile, the Directors are also negotiating with other potential partners to expand the variety of our game products.

Apart from the expansion of our product range, we are also considering territorial expansion. The Group is studying the feasibility of the video distribution and film exhibition business in the PRC. The Directors see many challenging opportunities for the future. The strategies that have helped the Group to achieve our past breakthroughs will remain in place to ensure that the Group continues to deliver on the promise to become a major force in the multimedia entertainment world.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally financed its operations and investing activities with internally generated cashflows and the balance of the net proceeds from the listing of the Company's shares on GEM on 28 June 2001 (the "Listing").

As at 31 December 2002, the Group had net current assets of approximately HK\$53.6 million, of which approximately HK\$26.4 million (2001: approximately HK\$26.6 million) were bank and cash balances. The Directors are confident that the Group's existing financial resources will be sufficient to satisfy its commitments and working capital requirements.

FOREIGN EXCHANGE EXPOSURE

Most of the income and expenditure of the Group were denominated either in Hong Kong dollars or United States dollars. In view of the stability of the exchange rate between these two currencies, the Directors do not consider that the Group was significantly exposed to foreign exchange risk.

Management Discussion and Analysis

CAPITAL STRUCTURE

As at 31 December 2002, the Group's net assets were financed by internal resources through share capital and reserves. Total equity attributable to shareholders was approximately HK\$62 million as at 31 December 2002, representing a decrease of approximately 8% over last year.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2002, the Group's time deposits of HK\$2.8 million were pledged to banks in respect of payment of advertising charges in favour of a newspaper publisher, standby documentary credits issued to a licensor and provision of e-commerce service granted to subsidiaries of the Company.

MATERIAL ACQUISITIONS/DISPOSAL AND SIGNIFICANT INVESTMENTS

The Group did not have any material acquisitions, disposal and significant investments during the year under review.

GEARING RATIO

As at 31 December 2002, the Group did not have any long-term obligations.

CAPITAL COMMITMENTS

As at 31 December 2002, the Group had a capital commitment to make capital contribution of approximately HK\$116,000 for investment in an associate, commitments of unpaid film rights of approximately HK\$3,340,000 due to licensors and a commitment of unpaid purchase costs of approximately HK\$425,000.

CONTINGENT LIABILITIES

As at 31 December 2002, the Company had undertaken to guarantee the payment of advertising charges and the provision of e-commerce service granted to certain subsidiaries of the Company to the extent of HK\$300,000 and HK\$2,000,000, respectively. The Group had contingent liabilities in respect of long service payments of approximately HK\$1,905,000.

EMPLOYEE INFORMATION

As at 31 December 2002, the Group had a total of 59 employees. The total staff costs, including directors' emoluments, amounted to approximately HK\$16,350,000 for the year under review.

Staff remuneration is reviewed by the Group from time to time depending on length of service and performance where warranted. In addition to salaries, the Group provides staff benefit including medical insurance and contributions to staff's provident fund. Share options and bonuses are also available to employees of the Group at the discretion of the Directors and depending upon the financial performance of the Group.

Comparison of Business Objectives with Actual Business Progress

Comparison between proposed business objectives as published in the prospectus of the Company dated 12 June 2001 (the "Prospectus") and actual performance for the six months ended 31 December 2002

Proposed objectives as stated in the Prospectus

Actual performance for the six months ended 31 December 2002

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 Macau2. To selectively identify and invest in strategic film and other entertainment related projects or content partners which can generate synergies with the existing line of business of the Group | <ol style="list-style-type: none">1. The Group had secured additional chain stores for distribution of its home video products, such as Jumpin Gym USA Limited, Nobletime Ltd. and So-net HK2. To enter into other entertainment related business, the Group commenced to distribute PC games and online games |
|--|---|

Theatrical, television release and film rights sub-licensing (previously described as theatrical, pay/free TV rights distribution in the Prospectus)

- | | |
|--|---|
| <ol style="list-style-type: none">1. Continue to expand customer base by distributing to other Asian markets and to more TV channels | <ol style="list-style-type: none">1. The Group continued to negotiate with various existing and new television operators in respect of content supply |
|--|---|

Online business (previously described as internet business in the Prospectus)

- | | |
|--|--|
| <ol style="list-style-type: none">1. Launching of online music delivery service2. Commence territorial expansion for online store in other Southeast Asian markets and China (excluding Taiwan) | <ol style="list-style-type: none">1. The Group continued to explore business opportunity from the new technology of the new media platform for online delivery launched by Era Communications Co., Ltd. ("ERA Taiwan") in Taiwan2. 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 |
|--|--|

Use of Proceeds from the Placing

The net proceeds from the Listing amounted to approximately HK\$44.6 million. During the period from 28 June 2001 (date of the Listing) to 31 December 2002, 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 2002 as disclosed in the Prospectus HK\$'million	Actual amount applied up to 31 December 2002 HK\$'million
Acquisition of entertainment related content including TV distribution rights and online distribution rights	1	7.4	4.2
Expansion of the home video and theatrical categories	2	11.7	6.4
Preparation for and development of the launching of online delivery services	3	4.2	—
TOTAL		<u>23.3</u>	<u>10.6</u>

Notes:

- As the distribution market of online delivery of entertainment content has not picked up as fast as the Group has anticipated, spending in this category was delayed.
- Approximately HK\$4.7 million, not included above, was made in the first quarter of 2003 for the acquisition of a home video distribution right.
- The Group is exploring business opportunity from the technology of online delivery developed by ERA Taiwan, thus limited cash resources were being utilised. The Group is planning the timing of the launch of the online delivery services, based on the exploring of the technology from ERA Taiwan.
- Out of the net proceeds from the Listing, approximately HK\$2.9 million, in addition to the proposed HK\$4.7 million, was applied as general working capital of the Group, such funding is expected to be generated from the continuing operation of the Group. Except for the termination of the online store and delay in the launching of online music delivery service, the Group has not expected to alter from its original plans as stated in the Prospectus.

Directors and Senior Management Profiles

DIRECTORS

Executive Directors

Mr. LEUNG Chung Chu, Andrew, aged 46, 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.

Madam YAU Sui Ha, Cecilia, aged 46, 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, television release and film rights sub-licensing business. Madam 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, Madam Yau was a senior management of a joint-venture company of three major Hollywood studios in Hong Kong.

Mr. YAU Kar Man, aged 44, is also an executive director of Era Digital Media Limited, a wholly-owned subsidiary of the Company principally engaged in the distribution of console, PC and online games. He is responsible for the management and development of the Group's games distribution and online 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 55, 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 47, 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 49, 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

CONSULTANT

Mr. CHEN Shu, aged 74, 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 in 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 37, General Manager of Era Home Entertainment Limited, 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 a master of business administration degree from Southwest Missouri State University. He has more than 10 years' experience in the field of sales, marketing and distribution both in Hong Kong and the PRC.

Mr. NG Wai Lun, aged 40, 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, as well as company secretarial matters. 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 32, Senior Technology Officer of Era Digital Media Limited, 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 degree from Ulster University. He has 9 years' experience in the information technology field as well as system development.

The Directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2002.

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 material 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, film rights sub-licensing, games distribution including PC games and online games 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 2002 is set out in note 31 to the financial statements.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2002 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 24 to 60.

The Directors do not recommend the payment of any dividend for the year ended 31 December 2002.

There is no arrangement under which a shareholder of the Company has waived or agreed to waive any dividends.

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 year and details of the Company's share options are set out in notes 25 and 26 to the financial statements, respectively.

Directors' Report

RESERVES

Details of the movements in the reserves of the Group and the Company are set out in the statement of changes in equity on pages 26 and 27.

DISTRIBUTABLE RESERVES

At 31 December 2002, the Company's reserves available for cash distribution and/or distribution in specie amounted to approximately HK\$81,498,000. Under the Companies Law (Revised) of the Cayman Islands, 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 during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for approximately 58% of the total sales for the year and sales to the largest customer included therein amounted to approximately 21%.

Purchases from the Group's five largest suppliers accounted for approximately 81% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 33%.

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 Director during the year and up to the date of this report were as follows:

Executive directors

Mr. Leung Chung Chu, Andrew

Madam Yau Sui Ha, Cecilia

Mr. Yau Kar Man

Non-executive director

Mr. Chiu Fu Sheng

Independent non-executive directors

Mr. Chan Kin Wo

Mr. Yow Cecil

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 13 and 14 of the annual report.

DIRECTORS' EMOLUMENTS AND THE FIVE HIGHEST PAID EMPLOYEES

Details of the emoluments 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.

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, none of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory obligations.

Directors' Report

DIRECTORS' INTERESTS IN SHARES

At 31 December 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 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 57.10% 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 57.10% 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 Malaysian Ringgit 1 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.

SHARE OPTION SCHEMES

Pursuant to the pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") adopted by the Company on 5 June 2001, certain Directors and participants 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 grantee	Date of grant	Granted	Number of shares options		Outstanding as at 31 December 2002
			Outstanding as at 1 January 2002	Lapsed during the year under review	
<i>Executive directors</i>					
Mr. Leung Chung Chu, Andrew	5 June 2001	1,200,000	1,200,000	—	1,200,000
Madam Yau Sui Ha, Cecilia	5 June 2001	600,000	600,000	—	600,000
Mr. Yau Kar Man	5 June 2001	400,000	400,000	—	400,000
<i>Independent non-executive directors</i>					
Mr. Chan Kin Wo	5 June 2001	400,000	400,000	—	400,000
Mr. Yow Cecil	5 June 2001	400,000	400,000	—	400,000
<i>Other participants</i>					
Employees in aggregate (Note)	5 June 2001	4,560,000	4,270,000	630,000	3,640,000
Consultants	5 June 2001	700,000	700,000	—	700,000
Total			<u>7,970,000</u>	<u>630,000</u>	<u>7,340,000</u>

Note : Employees working under employment contracts that were regarded as "continuous contracts" for the purpose of the Employment Ordinance (Chapter 57 of the laws of Hong Kong).

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

No share options under the Pre-IPO Share Option Scheme were exercised by the Directors for the year ended 31 December 2002.

Directors' Report

As at the date of this report, there are 7,340,000 outstanding share options granted under the Pre-IPO Share Option Scheme representing approximately 2% of the issued share capital of the Company if the said share options are exercised in full.

Under the terms of the share option scheme (the "Share Option Scheme") adopted by the Company on 5 June 2001, the Directors may at their discretion grant options to Directors and employees of the Group to subscribe for shares of the Company.

No share options under the Share Option Scheme were granted to the Directors up to 31 December 2002.

As at the date of this report, 32,000,000 shares of the Company are available for issue under the Share Option Scheme, representing 10% of the issued share capital of the Company if the said share options are exercised in full.

Details of the Pre-IPO Share Option Scheme and the Share Option Scheme are set out in note 26 to the financial statements.

Save as disclosed above, 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 acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

During the year, the Group had transactions with Mr. Chiu Fu Sheng and certain companies in which Mr. Chiu Fu Sheng has beneficial interest. The particulars of these transactions are set out in note 30 to the financial statements.

Save as disclosed in note 30 to the financial statements, 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 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
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	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" above, 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 at 31 December 2002.

Save as disclosed herewith, no controlling shareholders (as defined in the GEM Listing Rules) or any of its subsidiaries had a significant beneficial interest, either directly or indirectly, in any contract of significance (including but not limited to the provision of services) to which the Company, any of its holding companies or any of its subsidiaries was a party during the year under review.

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 30 to the financial statements.

Pursuant to an extraordinary general meeting of the Company on 23 December 2002, resolutions regarding the Distribution Agreement (as defined in note 30 to the financial statements), the transactions contemplated thereof and the respective maximum aggregate annual values for each of the financial year ending 31 December 2004 were passed, subject to certain conditions stated thereof (particulars of which were stated in the circular of the Company dated 7 December 2002).

The independent non-executive directors have reviewed the connected transactions set out in note 30 to the financial statements and, in their opinion, these transactions entered into by the Group were:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms;
- (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and
- (iv) regarding the Distribution Agreement (as defined in note 30 to the financial statements), the values of the Distribution Agreement and the transactions contemplated thereof have not exceeded the maximum aggregate annual value of HK\$1,800,000 for the financial year ended 31 December 2002.

The independent non-executive directors further opined that the Company should continue with the Distribution Agreement and the transactions contemplated thereof.

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.

SPONSOR'S INTEREST

Pursuant to a sponsor agreement date 11 June 2001 entered into between the Company and REXCAPITAL (Hong Kong) Limited ("Rexcapital"), Rexcapital has received and will receive fees for acting as the Company's retained sponsor for the period up to 31 December 2003.

At 31 December 2002, neither Rexcapital nor its directors, employees or their respective associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the share capital of the Company or its subsidiaries, including options or rights to subscribe for such shares, pursuant to Rules 6.36 and 18.63 of the GEM Listing Rules.

Directors' Report

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 and television rights, film rights sub-licensing and games distribution 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 2002, any business or interest of each Director, initial management shareholder and their respective associates 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

As required by Rules 5.23 to 5.25 of the GEM Listing Rules, the Company has established an audit committee (the "Committee") with written terms of reference which deal clearly with its authority and duties. Its principal duties are to review and supervise the Group's financial reporting process and internal control systems. The Committee comprises two independent non-executive directors, Mr. Chan Kin Wo and Mr. Yow Cecil. The Committee met on a quarterly basis during the year.

BOARD PRACTICES AND PROCEDURES

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules during the year under review.

AUDITORS

RSM Nelson Wheeler will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of RSM Nelson Wheeler as auditors of the Company is to be proposed at the forthcoming annual general meeting.

There is no change in auditors of the Company since the Listing.

On behalf of the Board

Leung Chung Chu, Andrew
Chairman and Executive Director

Hong Kong, 18 March 2003

RSM Nelson Wheeler

羅申美會計師行

Certified Public Accountants

To the shareholders of

ERA INFORMATION & ENTERTAINMENT LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 24 to 60 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 2002 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, 18 March 2003

Consolidated Income Statement

Year ended 31 December 2002

	<i>Note</i>	2002 HK\$'000	2001 HK\$'000
TURNOVER	4	111,218	118,353
Cost of sales		(83,776)	(83,851)
Gross profit		27,442	34,502
Other revenue	4	814	2,115
Portal promotion costs		(2)	(716)
Portal development costs		—	(1,509)
Distribution costs		(786)	(1,361)
Administrative expenses		(31,248)	(30,714)
Other operating expenses		(495)	(735)
(LOSS)/PROFIT FROM OPERATING ACTIVITIES	5	(4,275)	1,582
Finance costs	6	(52)	(273)
Share of losses of associates		—	(800)
(LOSS)/PROFIT BEFORE TAXATION		(4,327)	509
Taxation	10	(755)	(2,186)
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS	11	(5,082)	(1,677)
Loss per share - basic	13	HK\$(1.59) cents	HK\$(0.57) cents

The notes on pages 31 to 60 form an integral part of these financial statements.

Consolidated Balance Sheet

31 December 2002

	Note	2002 HK\$'000	2001 HK\$'000
NON-CURRENT ASSETS			
Film rights	14	5,233	3,544
Fixed assets	15	2,358	3,694
Interests in associates	17	156	156
Club membership	19	650	650
		8,397	8,044
CURRENT ASSETS			
Inventories	20	8,422	7,921
Current portion of film rights	14	10,072	11,807
Trade and other receivables	21	29,700	20,539
Prepayments and deposits		7,471	16,233
Tax recoverable		799	—
Bank and cash balances	22	26,394	26,562
		82,858	83,062
CURRENT LIABILITIES			
Trade and other payables	23	29,104	22,419
Provision for taxation		—	1,267
Current portion of obligations under finance leases	24	154	187
		29,258	23,873
NET CURRENT ASSETS			
		53,600	59,189
TOTAL ASSETS LESS CURRENT LIABILITIES			
		61,997	67,233
NON-CURRENT LIABILITIES			
Obligations under finance leases	24	—	154
NET ASSETS			
		61,997	67,079
CAPITAL AND RESERVES			
Share capital	25	3,200	3,200
Reserves		58,797	63,879
SHAREHOLDERS' FUNDS			
		61,997	67,079

Approved by the Board of Directors on 18 March 2003

Leung Chung Chu, Andrew
Chairman and Executive Director

Yau Kar Man
Executive Director

The notes on pages 31 to 60 form an integral part of these financial statements.

Statement of Changes in Equity

Year ended 31 December 2002

	Share capital	Share premium	Group Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2001	3	20,002	(435)	19,570
Increase in share capital of a subsidiary prior to group reorganisation	—	4,000	—	4,000
Issue of shares	580	57,420	—	58,000
Capitalisation issue of shares	2,617	(2,617)	—	—
Share issue expenses	—	(12,814)	—	(12,814)
Net loss for the year	—	—	(1,677)	(1,677)
At 31 December 2001	3,200	65,991	(2,112)	67,079
Net loss for the year	—	—	(5,082)	(5,082)
At 31 December 2002	<u>3,200</u>	<u>65,991</u>	<u>(7,194)</u>	<u>61,997</u>
Retained by:				
Company and subsidiaries	3,200	65,991	(2,929)	66,262
Associates	—	—	(4,265)	(4,265)
31 December 2002	<u>3,200</u>	<u>65,991</u>	<u>(7,194)</u>	<u>61,997</u>
Company and subsidiaries	3,200	65,991	2,153	71,344
Associates	—	—	(4,265)	(4,265)
31 December 2001	<u>3,200</u>	<u>65,991</u>	<u>(2,112)</u>	<u>67,079</u>

The notes on pages 31 to 60 form an integral part of these financial statements.

Statement of Changes in Equity

Year ended 31 December 2002

	Share capital	Share premium	Company Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2001	3	—	(108)	(105)
Arising on acquisition of Era Information & Entertainment (BVI) Limited	—	42,564	—	42,564
Issue of shares	580	57,420	—	58,000
Capitalisation issue of shares	2,617	(2,617)	—	—
Share issue expenses	—	(12,814)	—	(12,814)
Net loss for the year	—	—	(810)	(810)
At 31 December 2001	3,200	84,553	(918)	86,835
Net loss for the year	—	—	(2,137)	(2,137)
At 31 December 2002	<u>3,200</u>	<u>84,553</u>	<u>(3,055)</u>	<u>84,698</u>

Notes:

- The share premium account of the Group includes (i) the premium arising from the issue of shares during the year ended 31 December 2001; 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 ended 31 December 2001; 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 (Revised) of the Cayman Islands, 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.

The notes on pages 31 to 60 form an integral part of these financial statements.

Consolidated Cash Flow Statement

Year ended 31 December 2002

	2002	2001
	HK\$'000	HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/profit from operating activities	(4,275)	1,582
Adjustments for:		
Amortisation of film rights	49,764	51,077
Depreciation	1,592	1,978
Bad debts written off	104	6
Assets for online business written off	159	—
Provision for doubtful debts	232	439
Provision for inventories	960	935
Impairment losses	—	410
Interest income	(128)	(371)
Gain on disposals of fixed assets	—	(2)
Operating profit before working capital changes	48,408	56,054
Increase in inventories	(1,461)	(195)
Increase in trade and other receivables	(9,497)	(2,703)
Decrease/(increase) in prepayments and deposits	8,603	(11,329)
Increase/(decrease) in trade and other payables	6,685	(5,110)
Cash generated from operations	52,738	36,717
Interest paid	—	(218)
Finance lease charges	(52)	(55)
Hong Kong profits tax paid	(2,821)	(1,792)
Net cash from operating activities	49,865	34,652
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(256)	(1,286)
Purchases of film rights	(49,718)	(59,932)
Proceeds from disposals of fixed assets	—	2
Interest income	128	371
Net cash used in investing activities	(49,846)	(60,845)

The notes on pages 31 to 60 form an integral part of these financial statements.

Consolidated Cash Flow Statement

Year ended 31 December 2002

	2002 HK\$'000	2001 HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from issue of share capital	—	45,186
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)
Payment of finance lease capital element	(187)	(207)
Net cash (used in)/from financing activities	(187)	45,279
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(168)	19,086
CASH AND CASH EQUIVALENTS AT 1 JANUARY	26,562	7,476
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	26,394	26,562
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	26,394	26,562

The notes on pages 31 to 60 form an integral part of these financial statements.

Balance Sheet

31 December 2002

	Note	2002 HK\$'000	2001 HK\$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	16	<u>81,729</u>	<u>55,866</u>
CURRENT ASSETS			
Other receivables		88	90
Prepayments and deposits		130	10,119
Bank and cash balances		3,802	21,760
		4,020	31,969
CURRENT LIABILITIES			
Other payables	23	<u>1,051</u>	<u>1,000</u>
NET CURRENT ASSETS			
		<u>2,969</u>	<u>30,969</u>
NET ASSETS			
		84,698	86,835
CAPITAL AND RESERVES			
Share capital	25	3,200	3,200
Reserves		<u>81,498</u>	<u>83,635</u>
SHAREHOLDERS' FUNDS			
		84,698	86,835

Approved by the Board of Directors on 18 March 2003

Leung Chung Chu, Andrew
Chairman and Executive Director

Yau Kar Man
Executive Director

The notes on pages 31 to 60 form an integral part of these financial statements.

Notes to the Financial Statements

Year ended 31 December 2002

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 (Revised) of the Cayman Islands. Pursuant to a group reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the Listing, 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 the Prospectus.

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 material 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 all applicable Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules. They have been prepared under the historical cost convention as modified by revaluation of certain investments as explained in the accounting policies set out below.

In the current year, the Group adopted the following new or revised SSAPs which became effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statement
SSAP 34	:	Employee benefits

A summary of their major effects is as follows:

SSAP 1 (revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The main revision to this SSAP is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The statement of changes in equity for the current year and the comparative figures have been presented in accordance with the revised SSAP.

Notes to the Financial Statements

Year ended 31 December 2002

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

Basis of preparation *(continued)*

SSAP 11 (revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of this revised SSAP on the consolidated financial statements is that the income statement of associate operating in overseas are translated at an average rate for the year on consolidation, rather than translated at the applicable rates of exchange ruling at the balance sheet date as was previously required. This SSAP is required to be applied retrospectively. The Group has adopted the transitional provision of this SSAP that where the calculation of a prior year adjustment is impractical, these changes in policy are applied only to current and future financial statements and the effect on the results of the current year is not significant.

SSAP 15 (revised) prescribes the provision of information about the changes in cash and cash equivalents of an enterprise by means of a cash flow statement which classifies cash flows during the year into those from operating, investing and financing activities. The format of consolidated cash flow statement for the current year and the comparative figures are presented in accordance with the revised SSAP 15.

SSAP 34 prescribes the accounting and disclosure for employee benefits. This SSAP has had no major impact on the consolidated financial statements. Details of the accounting policies of employee benefits are set out below.

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 year ended 31 December 2001 include the results and cash flows of the Company and its subsidiaries with effect from 1 January 2001 or since their respective dates of incorporation, where this is a shorter period.

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.

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

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

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

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

Theatrical income is recognised when the film is released.

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

Film rights sub-licensing income is recognised on the transfer of risks and rewards of ownership, which is generally in accordance with the terms of the underlying license agreements.

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 risks and rewards 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 2002

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

Operating leases

Leases where substantially all the risks and rewards 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 term.

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 balance sheet of associate expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the income statement is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(ii) Retirement benefit costs

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

(iii) Long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of probable future long service payments based on the best estimate of the probable future outflow of resources which has been earned by the employees from their service to the Group to the balance sheet date.

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

Employee benefits *(continued)*

(iii) Long service payments *(continued)*

A contingent liability is disclosed in respect of possible future long service payments based on the number of current employees who have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Hong Kong Employment Ordinance. A provision has not been recognised in respect of such possible payments as it is not considered probable that they will result in a future outflow of resources.

(iv) Share option

When the Company grants employees options to acquire shares of the Company, the option exercise price equals the market price of the underlying shares at the date of the grant and no employee benefit cost or obligation is recognised at that time. When the options are exercised, equity is increased by the amount of the proceeds received.

(v) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

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.

Notes to the Financial Statements

Year ended 31 December 2002

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

Film rights

Film rights represent license fees prepaid and/or payable by instalments under license agreements for the reproduction and distribution of video products, 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 accumulated amortisation and impairment losses, if any.

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.

The costs of film rights are amortised on a systematic basis over the underlying license periods with reference to projected revenue, but not exceeding 20 years, according to the following:

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

Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses, if any. 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.

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

A subsidiary is an enterprise controlled by the Group. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

The Company's investments 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

An associate is an enterprise in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

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

Investment securities

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

Club membership

Club membership held for non-trading purpose is stated at fair value at the balance sheet date. Changes in the fair value of club membership are 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 difference between 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.

Notes to the Financial Statements

Year ended 31 December 2002

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

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 price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the year in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the year the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the year in which the reversal occurs.

Impairment of assets

The carrying amounts of assets are reviewed at each balance sheet date to assess whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the income statement.

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.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote.

Event after the balance sheet date

Post-year-end events that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

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 are subject to an insignificant risk of changes in value.

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 2002

4. TURNOVER AND REVENUE

An analysis of turnover and revenue is as follows:

	2002	2001
	HK\$'000	HK\$'000
Turnover		
Sales of home video products	105,606	110,410
Theatrical, television release and film rights sub-licensing	4,383	7,527
Games distribution and online business	1,229	416
	111,218	118,353
Other revenue		
Bank interest income	128	371
Distribution income	63	39
Dubbing income, net	97	6
Marketing income	526	1,500
Sponsorship income	—	199
	814	2,115
	112,032	120,468

Notes to the Financial Statements

Year ended 31 December 2002

5. (LOSS)/PROFIT FROM OPERATING ACTIVITIES

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

	2002	2001
	HK\$'000	HK\$'000
Amortisation of film rights (included in cost of sales)	49,764	51,077
Assets for online business written off	159	—
Auditors' remuneration	460	460
Bad debts written off	104	6
Cost of inventories sold	24,362	18,425
Depreciation		
Owned fixed assets	1,420	1,806
Leased fixed assets	172	172
Impairment losses		
Film rights (included in cost of sales)	—	210
Fixed assets (included in other operating expenses)	—	200
Operating lease rentals		
Land and buildings	2,077	2,281
Office equipment	14	14
Provision for doubtful debts	232	439
Provision for inventories	960	935
Provision for inventories written back (note 20)	(1,982)	—
Inventories written off (note 20)	1,982	—
Staff costs including directors' emoluments		
Salaries and other costs	15,839	17,644
Retirement benefits scheme contributions	511	585
	16,350	18,229
Gain on disposals of fixed assets	—	(2)

Notes to the Financial Statements

Year ended 31 December 2002

6. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Finance lease charges	52	55
Interest on loan from a shareholder	—	218
	<hr/> 52	<hr/> 273

7. DIRECTORS' EMOLUMENTS

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

	2002 HK\$'000	2001 HK\$'000
Fees		
Executive directors	—	—
Non-executive director	—	—
Independent non-executive directors	186	114
Other emoluments		
Executive directors		
Basic salaries, allowances and benefits in kind	3,607	3,742
Discretionary bonuses	—	—
Retirement benefit scheme contributions	36	36
	<hr/> 3,829	<hr/> 3,892

7. DIRECTORS' EMOLUMENTS *(continued)*

The remuneration of the Directors fell within the following bands:

	Number of directors	
	2002	2001
Nil to HK\$1,000,000	4	4
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
	<hr/> 6	<hr/> 6

During the year, three (2001: three) executive directors received emoluments of approximately HK\$2,005,000 (2001: HK\$2,092,000), HK\$1,061,000 (2001: HK\$1,095,000) and HK\$577,000 (2001: HK\$591,000), respectively. Two (2001: two) independent non-executive directors received emoluments of approximately HK\$93,000 (2001: HK\$57,000) and HK\$93,000 (2001: HK\$57,000), respectively, for the year. No emoluments was paid to the remaining one (2001: one) non-executive director during the year (2001: HK\$Nil).

There was no arrangement under which a Director waived or agreed to waive any emoluments 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' emoluments 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.

Notes to the Financial Statements

Year ended 31 December 2002

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2001: three) Directors, details of whose emoluments are set out in note 7 above. The details of the emoluments of the remaining two (2001: two) non-director, highest paid employees are as follows:

	2002	2001
	HK\$'000	HK\$'000
Basic salaries, allowances and benefits in kind	1,583	1,734
Discretionary bonuses	150	290
Retirement benefit scheme contributions	24	24
	<u>1,757</u>	<u>2,048</u>

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

	Number of employees	
	2002	2001
Nil to HK\$1,000,000	1	1
HK\$1,000,001 to HK\$1,500,000	1	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.

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. 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\$511,000 (2001: approximately HK\$585,000) represents contributions payable to the MPF Scheme by the Group at rates specified in the rules of the MPF Scheme. As at 31 December 2002, contributions of approximately HK\$69,000 (2001: approximately HK\$83,000) due in respect of the current reporting year had not been paid over the MPF Scheme.

10. TAXATION

- (a) The taxation charge comprises:

	2002	2001
	HK\$'000	HK\$'000
Hong Kong profits tax	<u>755</u>	<u>2,186</u>

Hong Kong profits tax has been provided at the rate of 16% (2001: 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\$5 million (2001: approximately HK\$4 million) as at 31 December 2002 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.

- (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 2002 are as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Tax effect of timing differences arising from:		
Tax losses carried forward	6,136	4,763
Excess of tax allowances over depreciation	(238)	(406)
	<u>5,898</u>	<u>4,357</u>

11. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The Group's net loss attributable to shareholders of approximately HK\$5,082,000 (2001: approximately HK\$1,677,000) included a loss of approximately HK\$2,137,000 (2001: approximately HK\$810,000) which has been dealt with in the financial statements of the Company.

Notes to the Financial Statements

Year ended 31 December 2002

12. DIVIDEND

No dividends have been paid or declared by the Company during the year (2001: 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\$5,082,000 (2001: approximately HK\$1,677,000) and the weighted average number of 320,000,000 shares (2001: 292,827,397 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 year ended 31 December 2001.

No diluted loss per share is presented as there was no dilutive potential ordinary shares for the years ended 31 December 2002 and 2001.

14. FILM RIGHTS

	Group HK\$'000
Cost	
At 1 January 2002	88,034
Additions	49,718
Write off	(27,990)
	<hr/>
At 31 December 2002	109,762
	<hr/>
Accumulated amortisation	
At 1 January 2002	72,473
Charge for the year	49,764
Write off	(27,990)
	<hr/>
At 31 December 2002	94,247
	<hr/>
Impairment losses	
At 1 January 2002 and 31 December 2002	210
	<hr/>
Net book value	
At 31 December 2002	15,305
	<hr/>
At 31 December 2001	15,351
	<hr/>

Notes to the Financial Statements

Year ended 31 December 2002

14. FILM RIGHTS (continued)

	Group	
	2002	2001
	HK\$'000	HK\$'000
Analysis of film rights		
Current portion	10,072	11,807
Non-current portion	5,233	3,544
	<u>15,305</u>	<u>15,351</u>

15. FIXED ASSETS

	Leasehold	Computers	Group	Motor	Total
	improvements	Computers	Furniture	vehicles	Total
	HK\$'000	HK\$'000	and	HK\$'000	HK\$'000
	HK\$'000	HK\$'000	fixtures	HK\$'000	HK\$'000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost					
At 1 January 2002	3,719	3,128	2,276	644	9,767
Additions	<u>13</u>	<u>101</u>	<u>142</u>	<u>—</u>	<u>256</u>
At 31 December 2002	<u>3,732</u>	<u>3,229</u>	<u>2,418</u>	<u>644</u>	<u>10,023</u>
Accumulated depreciation					
At 1 January 2002	2,401	1,491	1,682	299	5,873
Charge for the year	<u>540</u>	<u>620</u>	<u>271</u>	<u>161</u>	<u>1,592</u>
At 31 December 2002	<u>2,941</u>	<u>2,111</u>	<u>1,953</u>	<u>460</u>	<u>7,465</u>
Impairment losses					
At 1 January 2002 and 31 December 2002	<u>—</u>	<u>200</u>	<u>—</u>	<u>—</u>	<u>200</u>
Net book value					
At 31 December 2002	<u>791</u>	<u>918</u>	<u>465</u>	<u>184</u>	<u>2,358</u>
At 31 December 2001	<u>1,318</u>	<u>1,437</u>	<u>594</u>	<u>345</u>	<u>3,694</u>

The aggregate net book value of the Group's fixed assets held under finance leases as at 31 December 2002 amounted to approximately HK\$197,000 (2001: approximately HK\$369,000).

Notes to the Financial Statements

Year ended 31 December 2002

16. INTERESTS IN SUBSIDIARIES

	Company	
	2002	2001
	HK\$'000	HK\$'000
Unlisted shares, at cost	42,569	42,569
Due from subsidiaries	39,160	13,543
Due to subsidiaries	—	(246)
	<u>81,729</u>	<u>55,866</u>

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\$2,620	100%	—	Investment holding
Era Home Entertainment Limited	Hong Kong	Ordinary HK\$24,000,000	—	100%	Distribution of home video products
Era Films (HK) Limited	Hong Kong	Ordinary HK\$2	—	100%	Film exhibition and distribution of films in various formats and sub-licensing of film rights
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 and games distribution
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 2002

17. INTERESTS IN ASSOCIATES

	Group	
	2002	2001
	HK\$'000	HK\$'000
Share of net assets	<u>156</u>	<u>156</u>

Particulars of the associates are as follows:

Name	Place of incorporation and operation	Class of Shares	Attributable equity interest held by the Group	Principal activities
Winning Scope Sdn. Bhd.	Malaysia	Ordinary	22.73%	Investment holding
FinanceSec.com Limited	Hong Kong	Ordinary	21.11%	Dormant

18. INVESTMENT SECURITIES

	Group	
	2002	2001
	HK\$'000	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 and operation	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 2002

19. CLUB MEMBERSHIP

	Group	
	2002	2001
	HK\$'000	HK\$'000
Club membership, at market value	650	650

Club membership represents the corporate membership for Chung Shan Hot Spring Golf Club in the PRC.

20. INVENTORIES

The Group's inventories represent finished goods of home video products, PC games and online games.

As at 31 December 2002, the carrying amount of inventories that are carried at net realisable value amounted to approximately HK\$1,024,000 (2001: approximately HK\$569,000).

The Group reversed the provision for slow-moving inventories and wrote off the corresponding cost of approximately HK\$2 million for the year ended 31 December 2002 as a result of destruction of certain video products.

Notes to the Financial Statements

Year ended 31 December 2002

21. TRADE AND OTHER RECEIVABLES

	Group	
	2002	2001
	HK\$'000	HK\$'000
Trade receivables	27,610	18,485
Other receivables	1,240	2,054
Due from a related party	847	—
Due from an associate	3	—
	29,700	20,539

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

	Group	
	2002	2001
	HK\$'000	HK\$'000
Current - 30 days	8,716	9,659
31 - 60 days	8,188	5,390
61 - 90 days	4,778	1,576
91 - 180 days	4,906	1,675
181 - 365 days	785	168
Over 1 year	237	17
	27,610	18,485

The amounts due from an associate and a related party mainly represented reimbursement of expenses paid on their behalf and were charged on cost basis. The amounts are unsecured, interest-free and have no fixed terms of repayment.

22. BANK AND CASH BALANCES

Included in bank and cash balances of the Group are time deposits of HK\$2.8 million (2001: HK\$850,000) pledged by the Group to banks in respect of payment of advertising charges in favour of a newspaper publisher, standby documentary credits issued to a licensor and provision of e-commerce service to subsidiaries of the Company.

Notes to the Financial Statements

Year ended 31 December 2002

23. TRADE AND OTHER PAYABLES

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Trade payables	15,049	10,603	—	—
Film rights payables	5,276	7,249	—	—
Other payables	7,010	4,389	1,051	1,000
Receipts in advance	1,676	70	—	—
Due to an associate	4	4	—	—
Due to related parties	89	104	—	—
	29,104	22,419	1,051	1,000

The aged analysis of trade payables is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Current - 30 days	6,173	5,579
31 - 60 days	3,522	2,365
61 - 90 days	3,337	1,165
91 - 180 days	1,497	716
181 - 365 days	153	665
Over 1 year	367	113
	15,049	10,603

Notes to the Financial Statements

Year ended 31 December 2002

23. TRADE AND OTHER PAYABLES (continued)

The aged analysis of film rights payables is as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Current - 30 days	1,585	3,330
31 - 60 days	116	562
61 - 90 days	241	582
91 - 180 days	179	198
181 - 365 days	36	493
Over 1 year	3,119	2,084
	<u>5,276</u>	<u>7,249</u>

Included in trade payable of the Group are trading balances due to ERA Taiwan of approximately HK\$1,161,000 (2001: approximately HK\$13,000).

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

24. OBLIGATIONS UNDER FINANCE LEASES

	Group			
	Minimum	Present	Minimum	Present
	payments	value of	payments	value of
	2002	payments	2001	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts payable:				
Within one year	197	154	239	187
In the second year	—	—	197	154
	<u>197</u>	<u>154</u>	<u>436</u>	<u>341</u>
Total minimum finance lease payments	197	154	436	341
Future finance charges	(43)		(95)	
	<u>(43)</u>		<u>(95)</u>	
Total net finance lease payables	154		341	
Current portion	(154)		(187)	
	<u>(154)</u>		<u>(187)</u>	
Non-current portion	—		154	
	<u>—</u>		<u>154</u>	

Notes to the Financial Statements

Year ended 31 December 2002

25. SHARE CAPITAL

	Company	
	2002	2001
	HK\$'000	HK\$'000
Authorised:		
10,000,000,000 ordinary shares of HK\$0.01 each	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:		
320,000,000 ordinary shares of HK\$0.01 each	<u>3,200</u>	<u>3,200</u>

26. SHARE OPTION SCHEMES

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 with a purpose to recognise the contribution of certain Directors, employees, consultants and advisors of the Group to the growth of the Group and/or the Listing.

Pre-IPO Share Option Scheme

The shareholders adopted the Pre-IPO Share Option Scheme on 5 June 2001. Pursuant to the terms of the Pre-IPO Share Option 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.

Movements in share options are as follows:

	2002	2001
	Number	Number
At 1 January	7,970,000	—
Issued	—	8,260,000
Exercised	—	—
Lapsed	<u>(630,000)</u>	<u>(290,000)</u>
At 31 December	<u>7,340,000</u>	<u>7,970,000</u>

26. SHARE OPTION SCHEME *(continued)***Share Option Scheme**

Under the terms of the Share Option Scheme adopted by the Company, Directors are authorised, at their 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 of the shares 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 Share Option Scheme), shall not, in aggregate, exceed 30% of the shares of the Company in issue from time to time. HK\$1 is payable as consideration for each offer of share option granted. No option may be granted to any person which if exercised in full will result in such person's maximum entitlement exceeding 25% of the aggregate shares of the Company for the time being issued or issuable under the Share Option Scheme and any other share option scheme. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period commencing immediately after the date on which the options deemed to be granted and accepted and expiring on a date to be determined and notified by the Directors to the grantee. The Share Option Scheme became effective for a period of ten years commencing on the adoption on 5 June 2001. Further details of the Share Option Scheme are set out in the Prospectus.

No share options under the Share Option Scheme were granted up to 31 December 2002.

27. MAJOR NON-CASH TRANSACTIONS

The Group Reorganisation in preparation for the Listing involved the acquisition of Era Information & Entertainment (BVI) Limited by the issue of shares of the Company, further details of which are set out in the Prospectus and note 1 to the financial statements.

Notes to the Financial Statements

Year ended 31 December 2002

28. CONTINGENT LIABILITIES

- (a) As at 31 December 2002 the Group's contingent liability in respect of long service payments was approximately HK\$1,905,000 (2001: approximately HK\$1,781,000). No provision has been made for this amount as at 31 December 2002.
- (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 of the Company.

29. COMMITMENTS

As at 31 December 2002 the Group had the following commitments:

- (a) Operating lease commitments

	Group	
	2002	2001
	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	2,045	109
In the second to fifth years, inclusive	85	5
	<u>2,130</u>	<u>114</u>

- (b) Other commitments

	Group	
	2002	2001
	HK\$'000	HK\$'000
Unpaid purchase costs due to suppliers	425	—
Unpaid capital contribution for the investment in an associate	116	116
Unpaid film rights due to licensors	3,340	8,812
	<u>3,881</u>	<u>8,928</u>

The Company did not have any significant commitments as at 31 December 2002.

30. RELATED PARTY TRANSACTIONS

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

	Group	
	2002	2001
	HK\$'000	HK\$'000
Consultancy fee paid to a director (<i>note 1</i>)	280	—
Distribution income received from		
— ERA Taiwan	—	2
— Era International (HK) Limited (“EIHK”)	43	37
Loan interest paid to 5D Technology (<i>note 2</i>)	—	218
Film production cost paid to ERA Taiwan	—	13
Purchases from ERA Taiwan (<i>note 3</i>)	1,111	—

Mr. Chiu Fu Sheng, a director of the Company, is a major shareholder of ERA Taiwan, EIHK, and 5D Technology.

Notes:

1. Pursuant to a consultancy agreement entered into between Mr. Chiu Fu Sheng and the Group dated 11 May 2002, the Group appointed Mr. Chiu as a consultant in respect of the development and operation of cinema business for the period since 1 June 2002 at HK\$40,000 per month.
2. Pursuant to a loan agreement entered into between 5D Technology and the Group, 5D Technology advanced approximately HK\$5 million for the period from 17 January 2001 to 9 July 2001 at 9.15% per annum.
3. On 26 November 2002, the Group, ERA Taiwan and DigiCell Entertainment Co., Ltd. (“DigiCell”) had entered into a distribution agreement (the “Distribution Agreement”). As Mr. Chiu Fu Sheng and his associates are substantial shareholders in the Company, ERA Taiwan and DigiCell, the transactions contemplated under the Distribution Agreement constitute connected transactions of the Company under the GEM Listing Rules. ERA Taiwan, being appointed by DigiCell as the exclusive distributor of certain online game products in Taiwan, Hong Kong and Macau, appointed and authorised the Group as the exclusive distribution agent of the online game products. Pursuant to the Distribution Agreement, the Group will pay ERA Taiwan a deposit of approximately HK\$3,400,000 refundable upon the termination of the Distribution Agreement or as in accordance with the terms thereof. Under the terms of the Distribution Agreement, the purchase price of the online game products for the Group will be 58% (subject to a guaranteed gross profit margin of 10% to the suggested retailing price for the Group) of the suggested retailing price of the online game products determined by DigiCell and to be payable by the Group to ERA Taiwan. The Distribution Agreement has an initial term commencing on 24 December 2002 until 4 November 2004, subject to a renewal term of one year. Further details regarding the Distribution Agreement has been disclosed in the circular of the Company dated 7 December 2002.

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 PRC 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.

Notes to the Financial Statements

Year ended 31 December 2002

31. SEGMENTAL INFORMATION

(a) Primary reporting format - business segments

	Home video products distribution		Theatrical and television rights distribution and film rights sub-licensing		Games distribution and online business		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE										
External revenue	105,766	110,449	4,909	9,027	1,229	416	—	—	111,904	119,892
Inter-segment revenue *	—	649	3	20	2,365	2,500	(2,368)	(3,169)	—	—
Total revenue	105,766	111,098	4,912	9,047	3,594	2,916	(2,368)	(3,169)	111,904	119,892
RESULT										
Segment result	7,977	14,399	(3,677)	(2,431)	(2,777)	(5,831)	16	68	1,539	6,205
Unallocated corporate revenue									—	205
Unallocated corporate expenses									(5,942)	(5,199)
Operating (loss)/profit excluding interest income									(4,403)	1,211
Interest expenses									(52)	(273)
Interest income									128	371
Share of losses of associates									—	(800)
(Loss)/Profit before taxation									(4,327)	509
Taxation									(755)	(2,186)
Net loss for the year									(5,082)	(1,677)

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

31. SEGMENTAL INFORMATION (continued)

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

	Home video products distribution		Theatrical and television rights distribution and film rights sub-licensing		Games distribution and online business		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS										
Segment assets	66,296	45,361	10,305	10,542	9,861	3,401	(832)	(972)	85,630	58,332
Interests in associates									156	156
Unallocated corporate assets									5,469	32,618
Consolidated total assets									91,255	91,106
LIABILITIES										
Segment liabilities	19,396	16,895	7,488	4,884	2,343	562	(1,202)	(952)	28,025	21,389
Unallocated corporate liabilities									1,233	2,638
Consolidated total liabilities									29,258	24,027
OTHER INFORMATION										
Capital expenditure	832	1,116	844	1,556	100	833	—	—	1,776	3,505
Depreciation and amortisation	47,570	49,374	3,206	3,180	580	501	—	—	51,356	53,055
Impairment losses	—	210	—	—	—	200	—	—	—	410
Provision for inventories	370	782	—	—	590	153	—	—	960	935
Non-cash expenses other than depreciation, amortisation, impairment losses and provision for inventories	523	170	—	250	159	25	—	—	682	445

(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 2002

32. ULTIMATE HOLDING COMPANY

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

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of Directors on 18 March 2003.

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 Friday, 25 April 2003 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 2002.
2. To elect directors of the Company (the "Directors") and to authorise the board of directors of the Company ("Board of Directors") to fix the Directors' remuneration.
3. To 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 with or without amendments 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 (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, 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;

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.”

“Right Issue” means an offer of shares or other securities of the Company open for a period fixed by the Directors to holders of shares of the Company or any class thereof 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 defined below) 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”), subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on GEM of the Stock Exchange 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.”

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 4B 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 4A above."

5. As special business, to consider and if thought fit, pass the following resolutions with or without amendments as ordinary resolutions:

"THAT

- (a) the Distribution Agreement (as hereinafter defined), the transaction contemplated thereof and the maximum aggregate annual value being HK\$23,800,000 for the year ending 31 December 2003 be and are hereby re-approved pursuant to Rule 20.30 of the GEM Listing Rules AND THAT any one director of the Company be and is hereby authorised to do all acts and things of which the Directors consider necessary and expedient for the implementation of giving effect to the Distribution Agreement provided that the aggregate annual value payable thereunder in the financial year ending 31 December 2003 will not exceed HK\$23,800,000.
- (b) for the purpose of this Resolution, "Distribution Agreement" means the distribution agreement (copy of which marked "A" has been produced to this AGM and signed by the chairman of the AGM for the purpose of identification) entered into between Era Communications Co., Ltd ("Era Taiwan"), Era Digital Media Limited ("Era Digital") (a wholly-owned subsidiary of the Company) and DigiCell Entertainment Co., Ltd. ("DigiCell") on 26 November 2002, under which Era Taiwan, being appointed by DigiCell as the exclusive distributor of certain online game products in Taiwan, Hong Kong and Macau, appointed and authorised Era Digital as the exclusive distribution agent of the online game products in Hong Kong and Macau (particulars of which were stated in the circular of the Company dated 7 December 2002)."

On behalf of the Board

Leung Chung Chu, Andrew

Chairman

Hong Kong, 24 March 2003

Notice of Annual General Meeting

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, on a poll, 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 registrar in Hong Kong, Hong Kong Share Registrars Limited, Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong together with any power of attorney or other authority, under which it is signed, or a notorially 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 holders of any shares in the Company, any one of such joint holders may vote at the annual general meeting, either in person or by proxy, in respect of such shares as if he was solely entitled thereto, but if more than one of such joint holders are present at the 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.
- (4) A circular containing further details regarding the above resolutions regarding the Repurchase Mandate will be sent to the shareholders of the Company together with the annual report of the Company for the year ended 31 December 2002.
- (5) In accordance with Rule 20.30 of the GEM Listing Rules, Era Taiwan, DigiCell and their respective associates (as defined under the GEM Listing Rules) will abstain from voting on the above resolutions regarding the Distribution Agreement.