



Era Information & Entertainment Limited

年代資訊影視有限公司

(incorporated in the Cayman Islands with limited liability)



**ANNUAL REPORT 2003**

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

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the internet website operated by the Exchange. Listed companies are not generally required to issue paid report in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.**

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## Corporate Information

### Executive Director

Leung Chung Chu, Andrew (*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

## Corporate Information

**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](http://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 1712-1716, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wan Chai  
Hong Kong

## Corporate Information

### Principal bankers

DBS Bank (Hong Kong) Limited  
G/F The Center  
99 Queen's Road Central  
Hong Kong

Standard Chartered Bank  
Standard Chartered Bank Building  
4-4A Des Voeux Road Central  
Hong Kong

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](http://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:

	<b>Year ended 31 December</b>				
	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
TURNOVER	<b>105,689</b>	111,218	118,353	103,146	68,020
(LOSS)/PROFIT FROM OPERATING ACTIVITIES	<b>(9,060)</b>	(4,275)	1,582	999	1,430
Finance costs	<b>(44)</b>	(52)	(273)	(61)	(6)
Share of losses of associates	—	—	(800)	(704)	(501)
(LOSS)/PROFIT BEFORE TAXATION	<b>(9,104)</b>	(4,327)	509	234	923
Taxation	<b>204</b>	(755)	(2,186)	(1,228)	(417)
NET (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS	<b>(8,900)</b>	(5,082)	(1,677)	(994)	506
	<b>At 31 December</b>				
	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000 (restated)	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
Total assets	<b>86,009</b>	93,551	91,106	52,220	38,349
Total liabilities	<b>(30,616)</b>	(29,258)	(24,027)	(32,650)	(17,941)
NET ASSETS	<b>55,393</b>	64,293	67,079	19,570	20,408

*Notes:*

- The Company was incorporated in the Cayman Island on 26 May 2000 and became the holding company of the companies comprising the Group on 5 June 2001 as a result of a group reorganisation. Accordingly, the combined results, assets and liabilities for each of the years ended 31 December 1999 and 2000 are prepared based on the audited financial statements of the companies comprising the Group as if the current group structure had been in existence throughout these two years presented.
- The above financial summary as of and for the years ended 31 December 2002 and 2003 have been extracted from the audited financial statements of the Group as set out on pages 28 to 64 of the annual report.
- SSAP 12 (revised) "Income taxes" was first effective for accounting periods beginning on or after 1 January 2003. In order to comply with this revised standard, the Group adopted a new accounting policy for deferred tax in 2003. Figures for 2002 have been adjusted. However, it is not practicable to restate earlier years for comparison purposes.

## Chairman's Statement

On behalf of the directors ("the Directors") of Era Information & Entertainment Limited and our subsidiaries ("ERA"/"the Group"), I am pleased to present the annual results for the year ended 31 December 2003.

2003 was a tough year for the entertainment industry. The weak economic environment endured, together with the outbreak of the Severe Acute Respiratory Syndrome ("SARS") in the first half of the year, and the subsequent unfavourable consumption atmosphere had an adverse effect on the Group's performance during the year under review.

Despite of these, we are committed to enhance our home video products distribution and theatrical release businesses. During the reporting period, we continued to consolidate our core businesses through obtaining more marketable and quality products' representation for home video products distribution by riding on our well established relationship with major Hollywood studios. We also adopted a more cautious approach in scheduling the release of our theatrical titles in view of the market conditions.

On the other hand, the Group also placed every effort in the development of games products distribution business to enhance this new revenue stream. In view of the positive results of the games distribution business, the Group will continue to broaden the range of personal computer ("PC") and online games products on offer. Additionally, we will continue our business diversification strategy by capitalising our solid foundations.

We have been looking at suitable openings to penetrate the People's Republic of China ("PRC") market. Recently, a joint venture company ("JV") was incorporated in Beijing of the PRC, with a partner who is experienced in film and video distribution in the PRC, to extend our market presence in the territory. This new JV, namely 北京年恩長影文化傳播有限公司 ("年恩"), is expected to create a new revenue stream for the Group. We are also committed to looking for every emerging opportunity to facilitate our business growth while striving for better returns for our shareholders.

On behalf of the Board

**Leung Chung Chu, Andrew**  
*Chairman*

Hong Kong, 17 March 2004



# Management Discussion and Analysis

## FINANCIAL PERFORMANCE

For the year ended 31 December 2003, the Group recorded a turnover of approximately HK\$105.7 million (2002: approximately HK\$111.2 million). Loss attributable to shareholders amounted to approximately HK\$8.9 million as compared to approximately HK\$5.1 million recorded in the previous year.

Due to the weak local market condition before the last quarter of 2003, as well as the outbreak of SARS during the year under review, turnover in the sales of home video products dropped by approximately 19% when compared with that of last year. However, with the recovery of the consumption atmosphere in the last quarter of the year under review, turnover in the sales of home video products showed a slight increase of approximately 8% when compared with that of last year.

Despite of the weak local market, turnover of the theatrical, televisions release and film rights sub-licensing business increased by approximately 160% when compared with last year, and represented approximately 11% of the total turnover of the Group.

After the commencement of the business of games distribution by late 2002, the growth of this business is satisfactory. Turnover of the games distribution business contributed approximately 9% of the Group's total turnover for the year ended 31 December 2003.

Based on the latest estimation in line with the weak local market condition, the Group has made a provision for its inventory of approximately HK\$1.3 million, provisions for bad and doubtful debts of approximately HK\$0.2 million, as well as a provision for its film rights of HK\$1.0 million, during the last quarter of 2003. In addition, due to the expiry of a home video products' licensing agreement, the Group has made a provision for those expiring home video products of approximately HK\$0.8 million by the end of 2003. The above-mentioned non-recurring provisions, in aggregate, adversely affected the Group's results by approximately HK\$3.3 million for the year ended 31 December 2003.

## BUSINESS REVIEW

In face of the weak local market condition, the Group took a prudent approach in its home video product distribution and theatrical release businesses during the year under review. Due to the persisting weak economic environment and the subsequent unfavourable consumption atmosphere, which was further worsened by the outbreak of SARS, the Group's businesses were inevitably affected. Nevertheless, the PC games and online games distribution business reported growth and positive returns for the Group during the year.

# Management Discussion and Analysis

## **BUSINESS REVIEW** *(continued)*

Riding on its well established relationship with Hollywood's major studios, the Group distributed a number of new home video titles including blockbuster titles with famous stars such as "8 Miles", "Catch Me If You Can", "S.W.A.T.", "The Hulk", "Johnny English", "Lara Croft Tomb Raider: The Cradle of Life", "The Adventures of Indiana Jones" – The Complete DVD Movie Collection, "Terminator 3: Rise of the Machines" and "Charlie's Angles 2: Full Throttle" among others, during the year. The Group also launched various promotional campaigns to boost the sales of the home video products. The resulting responses have been positive.

The theatrical release business continued to be affected by the weak local market. Thus, the Group scheduled the release of its movies cautiously. During the year, the Group distributed several film titles included the Golden Globe and Oscar winning title "Chicago". In the fourth quarter of 2003, the Group concluded an agency deal, becoming the exclusive distribution agent of an animation film title in the East Asia region. This film title is expected to be released in mid 2004.

Contribution generated from the Group's PC games and online games distribution business continued to grow satisfactorily during the year. With continuing promotional programs and the increased number of games launched, as well as the growing popularity of online games in Hong Kong, the contribution of the games distribution business to the Group has continued to increase since its launch by the end of 2002.

New games launched during the year under review included Vivendi Universal's PC games such as "Jurassic Park: Operation Genesis", "The Hulk", "WarCraft III: The Frozen Throne" and the Chinese version of "WarCraft III: Reign of Chaos" and console games such as "The Lord of the Rings: The Fellowship of the Ring" and "The Hulk". In addition, since the launching of the first online game by the end of 2002, the Group is now distributing three online games in Hong Kong, namely, "Asgard", "Talesweaver" and "Tactical Commanders".

## **PROSPECTS**

Looking ahead, the home video products distribution business is expected to contribute stable and major income for the Group. Building on its solid foundation in the home video distribution and theatrical release businesses, the Group will capture every opportunity that brings in further revenues. At the same time, positive results of its games distribution business is marking the success of the Group's diversification strategy.

In 2004, new home video titles released recently include "American Pie – The Wedding", "Intolerable Cruelty" and "Warriors of Heaven and Earth". More titles will be released in 2004 including "Van Helsing", "Shrek 2", "Spider-Man 2", "Love Actually" and "Peter Pan". At the same time, the Group will continue its marketing efforts to boost the sales of the home video products.

# Management Discussion and Analysis

## **PROSPECTS** *(continued)*

On the side of theatrical business, the Group will continue its cautious approach in scheduling the releases of movie titles. The recent winning of its all-rights exclusive regional agent role for a movie has enabled the Group to broaden its income stream as well as its customer base. The Group will continue to seek more potential business opportunities in the region.

In view of the satisfactory results generated, the Group believes that the games distribution business will continue to grow, generating a stable income in the future. The Group will also continue to seek high potential game products to achieve better performance in its games distribution business. Currently, negotiations for new online games are underway with potential partners.

In view of the flourishing economic development in the PRC, the Group has been keeping a close eye on capturing appropriate opportunities to expand its geographical coverage in the market while enhancing its existing core businesses. A new JV, 年恩, was incorporated in Beijing of the PRC, in which the Group owns a 57% shareholding. 年恩 will engage in the entertainment related business. Noting the promising box office attraction of the movies in the PRC and anticipating that the demand for entertainment will step up as a result of improved living standards of the nation's people, the Group believes that the market poses high growth potential for the demand of services of this new JV.

## **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 2003, the Group had net current assets of approximately HK\$50.5 million, of which approximately HK\$6.0 million and HK\$15.3 million (2002: approximately HK\$2.8 million and HK\$23.6 million) were pledged bank deposits and bank and cash balances respectively. 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 2003, the Group's net assets were financed by internal resources through share capital and reserves. Total equity attributable to shareholders was approximately HK\$55.4 million as at 31 December 2003, representing a decrease of approximately 14% over last year.

## CHARGES ON THE GROUP'S ASSETS

As at 31 December 2003, the Group's time deposits of approximately HK\$6.0 million were pledged to banks in respect of standby documentary credits issued to a licensor and banking facilities granted to the Group.

## 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 2003, the Group did not have any long term obligations.

## CAPITAL COMMITMENTS

As at 31 December 2003, the Group had commitments of unpaid film rights of approximately HK\$2.1 million due to licensors, commitments of unpaid purchase costs of approximately HK\$6.8 million due to suppliers and unpaid capital contribution for the investment in a subsidiary of approximately HK\$0.3 million.

## CONTINGENT LIABILITIES

As at 31 December 2003, unlimited corporate guarantees was given by the Company to a bank in respect of banking facilities granted to certain subsidiaries of the Company. The Group had contingent liabilities in respect of long service payments of approximately HK\$1.9 million as at 31 December 2003.

## EMPLOYEE INFORMATION

As at 31 December 2003, the Group had a total of 55 employees. The total staff costs, including directors' emoluments, amounted to approximately HK\$14.4 million 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 2003

**Proposed objectives as stated in the Prospectus**

**Actual performance for the six months ended 31 December 2003**

### **Home video products distribution**

Continue to develop network by distributing through more retail chain stores in Hong Kong and Macau

The Group continued to negotiate with various chain stores in respect of the distribution of its home video products

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

Continue to expand customer base by distributing to more TV channels

The Group continued to negotiate with various television operators in respect of content supply

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

Finalise the launching preparation for online delivery entertainment related services

The Group is exploring business opportunity from the technology of online delivery developed by 年代網際事業股份有限公司 (Era Communications Co., Ltd.) (“ERA Taiwan”)

## 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 listing) to 31 December 2003, the Group has incurred the following amounts to achieve the business objectives as set out in the Prospectus.

	<i>Note</i>	<b>Amount to be applied up to 31 December 2003 as disclosed in the Prospectus</b> HK\$'million	<b>Actual amount applied up to 31 December 2003</b> HK\$'million
Acquisition of entertainment related content including TV distribution rights and online distribution rights	1	15.0	12.2
Expansion of the home video and theatrical categories	2	15.2	8.3
Preparation for and development of the launching of online delivery services	3	<u>8.6</u>	<u>–</u>
<b>TOTAL</b>		<b><u>38.8</u></b>	<b><u>20.5</u></b>

*Notes:*

1. 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.
2. Approximately HK\$7.8 million, not included above, will be made in 2004 for the acquisition of a home video distribution right.
3. The Group is exploring business opportunity from the technology of online delivery developed by ERA Taiwan, thus limited cash resources were being utilised.



## Directors and Senior Management Profiles

### DIRECTORS

#### *Executive Directors*

Mr. LEUNG Chung Chu, Andrew, aged 47, 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 47, 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 45, 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 56, 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 48, 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.

## **Directors and Senior Management Profiles**

### **DIRECTORS** *(continued)*

#### *Independent non-executive Directors (continued)*

Mr. YOW, Cecil, aged 50, 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.

### **CONSULTANT**

Mr. CHEN Shu, aged 75, 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 38, 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 41, 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 33, 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 10 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 2003.

### **PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 14 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 and games distribution including PC games and online games 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 2003 is set out in note 28 to the financial statements.

### **RESULTS AND DIVIDENDS**

The results of the Group for the year ended 31 December 2003 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 28 to 64.

The Directors do not recommend the payment of any dividend for the year ended 31 December 2003.

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 13 to the financial statements.

### **SUBSIDIARIES**

Particulars of the Company's subsidiaries are set out in note 14 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 23 and 24 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 30 and 31.

### **DISTRIBUTABLE RESERVES**

At 31 December 2003, the Company's reserves available for cash distribution and/or distribution in specie amounted to approximately HK\$52.2 million. Under the Companies Law (2003 Revision) 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 48% of the total sales for the year and sales to the largest customer included therein amounted to approximately 18%.

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 24%.

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. Yow Cecil will retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

## **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 5 and 6 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 7 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.

## Directors' Report

### DIRECTORS' SERVICE CONTRACTS *(continued)*

Each of the independent non-executive directors has been appointed for a term of two years commencing from 1 June 2003, and is subject to retirement by rotation in accordance with the Company's articles of association.

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' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2003, the interests of the Directors and the chief executives of the Company in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")) which would have to be notified to the Company and the Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions of which they were taken or deemed to have under such provisions of the SFO) and/or required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which had to be notified to the Company and the Exchange pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by the Directors were as follows:

#### (a) The Company

##### *Interests in shares of the Company*

Name of Directors	Capacity	Number and class of shares	Approximate % of holding
Mr. Leung Chung Chu, Andrew	Beneficial owner	25,000,000 ordinary shares (long position)	7.81%
Mr. Chiu Fu Sheng	Interest of controlled corporations	180,000,000 ordinary shares (long position) <i>(Note)</i>	56.25%

*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 GEM Listing Rules), beneficially own approximately 57.10% of the issued share capital of ERA Taiwan.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES *(continued)*

### (a) The Company *(continued)*

*Long positions in underlying shares of equity derivatives of the Company*

Name of Directors	Capacity	Description of equity derivatives (number and class of underlying shares)
Mr. Leung Chung Chu, Andrew	Beneficial owner	share options to subscribe for shares (1,200,000 ordinary shares) <i>(Note)</i>
Madam Yau Sui Ha, Cecilia	Beneficial owner	share options to subscribe for shares (600,000 ordinary shares) <i>(Note)</i>
Mr. Yau Kar Man	Beneficial owner	share options to subscribe for shares (400,000 ordinary shares) <i>(Note)</i>
Mr. Chan Kin Wo	Beneficial owner	share options to subscribe for shares (400,000 ordinary shares) <i>(Note)</i>
Mr. Yow Cecil	Beneficial owner	share options to subscribe for shares (400,000 ordinary shares) <i>(Note)</i>

*Note:* The aforesaid share options are classified as “long position” under the SFO. For details of the share options granted, please refer to the section headed “Share Option Schemes” below.

## Directors' Report

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES *(continued)*

#### (b) The associated corporations

*Interests in associated corporations of the Company*

Name of Directors	Name of associated corporations	Capacity
Mr. Chiu Fu Sheng	5D Technology	Interest of a controlled corporation <i>(Note 1)</i>
Mr. Chiu Fu Sheng	ERA Taiwan	Beneficial owner/ others <i>(Note 1)</i>
Mr. Leung Chung Chu, Andrew	Winning Scope Sdn. Bhd.	Beneficial owner <i>(Note 2)</i>

*Notes:*

1. As mentioned above, Mr. Chiu Fu Sheng and his associates (as defined in the GEM Listing Rules) beneficially own approximately 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.
2. Mr. Leung Chung Chu, Andrew is personally interested in 400,000 shares of Malaysian Ringgit 1 each in Winning Scope Sdn. Bhd., representing approximately 8.26% of the issued share capital of Winning Scope Sdn. Bhd., a company of which the Company is indirectly interested in approximately 22.73% of its issued share capital.

Save as disclosed herewith, as at 31 December 2003, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the Directors and/or the chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the Directors nor chief executives of the Company or their spouses or children under the age of 18 had any rights to subscribe for the securities of the Company, or had exercised any such rights.

Save as disclosed above, as at 31 December 2003, none of the Directors nor the chief executives of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Exchange.

## 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 27 to the financial statements.

Save as disclosed in note 27 to the financial statements, no Director had a significant beneficial interest, either direct or indirect, 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

As at 31 December 2003, so far is known to the Directors, the following persons (not being a Director or a chief executive of the Company) had an interest and/or a short position in the shares and/or underlying shares of the Company which would fall to be disclosed to the Company and the Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO and/or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

Name	Number and class of shares held	Approximate percentage of issued shares
ERA Taiwan	180,000,000 ordinary shares (long position) <i>(Note)</i>	56.25%
5D Technology	180,000,000 ordinary shares (long position) <i>(Note)</i>	56.25%

*Note:* The 180,000,000 shares are owned by 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 GEM Listing Rules), beneficially own approximately 57.10% of the issued share capital of ERA Taiwan.

Save as disclosed above, as at 31 December 2003, there was no person who had an interest and/or a short position in the shares and/or underlying shares of the Company which would fall to be disclosed to the Company and the Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO and/or was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group, or any options in respect of such capital.



## Directors' Report

### 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 1 January 2003	Lapsed during the period under review	Outstanding as at 31 December 2003
<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	3,640,000	310,000	3,330,000
Consultant	5 June 2001	700,000	<u>700,000</u>	<u>400,000</u>	<u>300,000</u>
Total			<u>7,340,000</u>	<u>710,000</u>	<u>6,630,000</u>

Note: Employees are those working under employment contracts regarded as "continuous contracts" under the Employment Ordinance (Chapter 57 of the laws of Hong Kong).



### SHARE OPTION SCHEMES *(continued)*

No share options under the share option scheme (the "Share Option Scheme") adopted by the Company on 5 June 2001 were granted during the year ended 31 December 2003.

Details of the Pre-IPO Share Option Scheme and the Share Option Scheme are set out in note 24 to the financial statements.

### 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 27 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 27 to the financial statements), the transactions contemplated thereof and the respective maximum aggregate annual values for each of the three financial years 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 27 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, the values of the Distribution Agreement and the transactions contemplated thereof have not exceeded the maximum aggregate annual value of HK\$23,800,000 for the financial year ended 31 December 2003.

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.

## **Directors' Report**

### **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.

As at the date of this report, 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 18.45 of the GEM Listing Rules.

### **COMPETING INTEREST**

The Directors are of the view that ERA Taiwan, being the single largest shareholder of the Company, has not and will not directly compete with the Group in respect of the businesses of distribution of home video products, theatrical, television release and 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.

Save as disclosed above, as at 31 December 2003, the Directors are not aware of any business or interest of each Director, initial management shareholder and their respective associates (as defined in the GEM Listing Rules) 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, 17 March 2004

## Auditors' Report

# 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 28 to 64 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 solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other persons for the contents of this report.

### **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 2003 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, 17 March 2004

## Consolidated Income Statement

Year ended 31 December 2003

	<i>Note</i>	2003 HK\$'000	2002 HK\$'000
TURNOVER	3	<b>105,689</b>	111,218
Cost of sales		<u>(85,097)</u>	<u>(83,776)</u>
Gross profit		<b>20,592</b>	27,442
Other revenue	3	<b>842</b>	814
Portal promotion costs		–	(2)
Distribution costs		<b>(643)</b>	(786)
Administrative expenses		<b>(28,435)</b>	(31,248)
Other operating expenses		<u>(1,416)</u>	<u>(495)</u>
LOSS FROM OPERATING ACTIVITIES	4	<b>(9,060)</b>	(4,275)
Finance costs – finance lease charges		<u>(44)</u>	<u>(52)</u>
LOSS BEFORE TAXATION		<b>(9,104)</b>	(4,327)
Taxation	8	<u>204</u>	<u>(755)</u>
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS	9	<u><b>(8,900)</b></u>	<u>(5,082)</u>
Loss per share – basic	11	<u><b>HK(2.78) cents</b></u>	<u>HK(1.59) cents</u>

The notes on pages 35 to 64 form an integral part of these financial statements.

# Consolidated Balance Sheet

31 December 2003

	<i>Note</i>	2003 HK\$'000	2002 HK\$'000 (restated)
<b>NON-CURRENT ASSETS</b>			
Film rights	12	652	5,233
Fixed assets	13	888	2,358
Interests in associates	15	156	156
Club membership	17	650	650
Deferred tax assets	18	2,500	2,296
		<b>4,846</b>	10,693
<b>CURRENT ASSETS</b>			
Inventories	19	8,515	8,422
Current portion of film rights	12	10,268	10,072
Trade and other receivables	20	29,830	29,700
Prepayments and deposits		10,383	7,471
Tax recoverable		880	799
Pledged bank deposits	21	5,950	2,800
Bank and cash balances		15,337	23,594
		<b>81,163</b>	82,858
<b>CURRENT LIABILITIES</b>			
Trade and other payables	22	30,579	29,104
Current portion of obligations under finance leases		–	154
Bank overdraft – secured	21	37	–
		<b>30,616</b>	29,258
<b>NET CURRENT ASSETS</b>		<b>50,547</b>	53,600
<b>NET ASSETS</b>		<b>55,393</b>	64,293
<b>CAPITAL AND RESERVES</b>			
Share capital	23	3,200	3,200
Reserves		52,193	61,093
<b>SHAREHOLDERS' FUNDS</b>		<b>55,393</b>	64,293

Approved by the Board of Directors on 17 March 2004

**Leung Chung Chu, Andrew**  
*Chairman and Executive Director*

**Yau Kar Man**  
*Executive Director*

The notes on pages 35 to 64 form an integral part of these financial statements.

## Statement of Changes in Equity

Year ended 31 December 2003

	Share capital HK\$'000	Share premium HK\$'000	Group Retained profits/ (Accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2002				
As previously stated	3,200	65,991	(2,112)	67,079
Effect of adopting SSAP 12	—	—	2,296	2,296
As restated	3,200	65,991	184	69,375
Net loss for the year	—	—	(5,082)	(5,082)
At 31 December 2002 and 1 January 2003				
As previously stated	3,200	65,991	(7,194)	61,997
Effect of adopting SSAP 12	—	—	2,296	2,296
As restated	3,200	65,991	(4,898)	64,293
Net loss for the year	—	—	(8,900)	(8,900)
At 31 December 2003	<u>3,200</u>	<u>65,991</u>	<u>(13,798)</u>	<u>55,393</u>
Retained by:				
Company and subsidiaries	3,200	65,991	(9,533)	59,658
Associates	—	—	(4,265)	(4,265)
At 31 December 2003	<u>3,200</u>	<u>65,991</u>	<u>(13,798)</u>	<u>55,393</u>
Company and subsidiaries (restated)	3,200	65,991	(633)	68,558
Associates	—	—	(4,265)	(4,265)
At 31 December 2002	<u>3,200</u>	<u>65,991</u>	<u>(4,898)</u>	<u>64,293</u>

The notes on pages 35 to 64 form an integral part of these financial statements.



## Statement of Changes in Equity

Year ended 31 December 2003

	<b>Company</b>			<b>Total</b> HK\$'000
	<b>Share capital</b> HK\$'000	<b>Share premium</b> HK\$'000	<b>Accumulated losses</b> HK\$'000	
At 1 January 2002	3,200	84,553	(918)	86,835
Net loss for the year	—	—	(2,137)	(2,137)
At 31 December 2002 and 1 January 2003	3,200	84,553	(3,055)	84,698
Net loss for the year	—	—	(29,305)	(29,305)
At 31 December 2003	3,200	84,553	(32,360)	55,393

*Notes:*

- (a) 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, details of which are set out in the Prospectus, over the nominal value of the shares of the Company issued in exchange therefor.
  
- (b) 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, details of which are set out in the Prospectus, over the nominal value of the shares of the Company issued in exchange therefor.
  
- (c) In accordance with the Companies Law (2003 Revision) 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 35 to 64 form an integral part of these financial statements.

# Consolidated Cash Flow Statement

Year ended 31 December 2003

	2003 HK\$'000	2002 HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss from operating activities	(9,060)	(4,275)
Adjustments for:		
Amortisation of film rights	48,345	49,764
Depreciation	1,520	1,592
Bad debts written off	33	104
Assets for online business written off	–	159
Provision for doubtful debts	1,383	419
Provision for doubtful debts written back	–	(187)
Provision for inventories	2,105	960
Provision for inventories written back ( <i>note 19</i> )	(1,152)	(1,982)
Inventories written off ( <i>note 19</i> )	898	1,982
Impairment losses on film rights	1,000	–
Interest income	(21)	(128)
	<hr/>	<hr/>
Operating profit before working capital changes	45,051	48,408
Increase in pledged bank deposits	(3,150)	(1,950)
Increase in inventories	(1,944)	(1,461)
Increase in trade and other receivables	(1,546)	(9,497)
(Increase)/decrease in prepayments and deposits	(2,912)	8,603
Increase in trade and other payables	1,475	6,685
	<hr/>	<hr/>
Cash generated from operations	36,974	50,788
Finance lease charges	(44)	(52)
Hong Kong profits tax paid	(81)	(2,821)
	<hr/>	<hr/>
Net cash from operating activities	36,849	47,915
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of fixed assets	(50)	(256)
Purchases of film rights	(44,960)	(49,718)
Interest income	21	128
	<hr/>	<hr/>
Net cash used in investing activities	(44,989)	(49,846)

The notes on pages 35 to 64 form an integral part of these financial statements.

## Consolidated Cash Flow Statement

Year ended 31 December 2003

	2003 HK\$'000	2002 HK\$'000
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment of finance lease capital element	(154)	(187)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(8,294)</b>	<b>(2,118)</b>
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	<b>23,594</b>	<b>25,712</b>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	<b>15,300</b>	<b>23,594</b>
<b>ANALYSIS OF CASH AND CASH EQUIVALENTS</b>		
Bank and cash balances	15,337	23,594
Bank overdraft – secured	(37)	–
	<b>15,300</b>	<b>23,594</b>

The notes on pages 35 to 64 form an integral part of these financial statements.

## Balance Sheet

31 December 2003

	<i>Note</i>	<b>2003</b> <b>HK\$'000</b>	<b>2002</b> <b>HK\$'000</b>
<b>NON-CURRENT ASSETS</b>			
Interests in subsidiaries	14	<u>54,011</u>	<u>81,729</u>
<b>CURRENT ASSETS</b>			
Other receivables		2	88
Prepayments and deposits		27	130
Pledged bank deposits	21	2,000	–
Bank and cash balances		126	3,802
		<b>2,155</b>	<b>4,020</b>
<b>CURRENT LIABILITIES</b>			
Other payables	22	736	1,051
Bank overdraft – secured	21	37	–
		<u>773</u>	<u>1,051</u>
<b>NET CURRENT ASSETS</b>		<u><b>1,382</b></u>	<u>2,969</u>
<b>NET ASSETS</b>		<u><b>55,393</b></u>	<u><b>84,698</b></u>
<b>CAPITAL AND RESERVES</b>			
Share capital	23	3,200	3,200
Reserves		<u>52,193</u>	<u>81,498</u>
<b>SHAREHOLDERS' FUNDS</b>		<u><b>55,393</b></u>	<u><b>84,698</b></u>

Approved by the Board of Directors on 17 March 2004

**Leung Chung Chu, Andrew**  
*Chairman and Executive Director*

**Yau Kar Man**  
*Executive Director*

The notes on pages 35 to 64 form an integral part of these financial statements.

# Notes to the Financial Statements

Year ended 31 December 2003

## 1. CORPORATE INFORMATION

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 14 to the financial statements. There were no material changes in the nature of the principal activities of the Group during the year.

## 2. 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 has adopted a revised SSAP, SSAP 12: Income taxes, which became effective for accounting periods commencing on or after 1 January 2003.

SSAP 12 (revised) prescribes the basis for accounting and disclosure requirements for both current and deferred tax. The revised SSAP requires deferred tax to be provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In prior year, SSAP 12 required deferred tax to be provided on all material timing differences arising between accounting profit and taxable profit. The adoption of SSAP 12 (revised) represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy. As a result, the Group's accumulated losses at 1 January 2002 and 2003 have been simultaneously reduced by approximately HK\$2,296,000 and the Group's net assets at 31 December 2002 has been increased by the same amount which represent the recognition of net deferred tax assets.

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

### 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 and title has been passed to the customers.

Theatrical income is recognised when the film is released.

# Notes to the Financial Statements

Year ended 31 December 2003

## 2. SUMMARY OF SIGNIFICANT PRINCIPAL ACCOUNTING POLICIES *(continued)*

### **Revenue recognition** *(continued)*

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.

### **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.

### **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 terms.

## 2. SUMMARY OF SIGNIFICANT PRINCIPAL ACCOUNTING POLICIES *(continued)*

### **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 is 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 contributions 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.

# Notes to the Financial Statements

Year ended 31 December 2003

## 2. 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 accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. In principle, deferred taxation liabilities are recognised for all taxable temporary differences and deferred taxation assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the taxable profit nor the accounting profit.



## 2. SUMMARY OF SIGNIFICANT PRINCIPAL ACCOUNTING POLICIES *(continued)*

### **Taxation** *(continued)*

Deferred taxation is calculated at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled. Deferred taxation is charged or credited to the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred taxation is also dealt with in equity.

Deferred taxation assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### **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. Expenditures 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.

# Notes to the Financial Statements

Year ended 31 December 2003

## 2. SUMMARY OF SIGNIFICANT PRINCIPAL ACCOUNTING POLICIES *(continued)*

### **Fixed assets** *(continued)*

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

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

### **Subsidiaries**

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 are 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.

# Notes to the Financial Statements

Year ended 31 December 2003

## 2. SUMMARY OF SIGNIFICANT PRINCIPAL ACCOUNTING POLICIES *(continued)*

### **Club membership** *(continued)*

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

### **Inventories**

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

Net realisable value is determined based on the estimated selling 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.

# Notes to the Financial Statements

Year ended 31 December 2003

## 2. SUMMARY OF SIGNIFICANT PRINCIPAL ACCOUNTING POLICIES *(continued)*

### **Provisions and contingent liabilities** *(continued)*

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.

### **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.

# Notes to the Financial Statements

Year ended 31 December 2003

## 2. SUMMARY OF SIGNIFICANT PRINCIPAL ACCOUNTING POLICIES *(continued)*

### Segment reporting *(continued)*

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.

## 3. TURNOVER AND REVENUE

An analysis of turnover and revenue is as follows:

	2003 HK\$'000	2002 HK\$'000
Turnover		
Sales of home video products	85,028	105,606
Theatrical, television release and film rights sub-licensing	11,405	4,383
Games distribution and online business	9,256	1,229
	<u>105,689</u>	<u>111,218</u>
Other revenue		
Bank interest income	21	128
Distribution income	21	63
Dubbing income, net	–	97
Marketing income	800	526
	<u>842</u>	<u>814</u>
	<u><u>106,531</u></u>	<u><u>112,032</u></u>

# Notes to the Financial Statements

Year ended 31 December 2003

## 4. LOSS FROM OPERATING ACTIVITIES

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

	2003 HK\$'000	2002 HK\$'000
Amortisation of film rights (included in cost of sales)	48,345	49,764
Assets for online business written off	–	159
Auditors' remuneration	460	460
Bad debts written off	33	104
Cost of inventories sold	25,375	24,362
Depreciation		
Owned fixed assets	1,520	1,420
Leased fixed assets	–	172
Impairment losses on film rights (included in cost of sales)	1,000	–
Operating lease rentals		
Land and buildings	2,040	2,077
Office equipment	–	14
Provision for doubtful debts	1,383	419
Provision for doubtful debts written back	–	(187)
Provision for inventories	2,105	960
Provision for inventories written back ( <i>note 19</i> )	(1,152)	(1,982)
Inventories written off ( <i>note 19</i> )	898	1,982
Staff costs including directors' emoluments		
Salaries and other costs	13,890	15,839
Retirement benefits scheme contributions	460	511
	<b>14,350</b>	<b>16,350</b>

# Notes to the Financial Statements

Year ended 31 December 2003

## 5. DIRECTORS' EMOLUMENTS

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

	2003 HK\$'000	2002 HK\$'000
Fees		
Executive directors	–	–
Non-executive director	–	–
Independent non-executive directors	160	186
Other emoluments		
Executive directors		
Basic salaries, allowances and benefits in kind	3,309	3,607
Discretionary bonuses	–	–
Retirement benefit scheme contributions	36	36
	<u>3,505</u>	<u>3,829</u>

The remuneration of the Directors fell within the following bands:

	Number of directors	
	2003	2002
Nil to HK\$1,000,000	5	4
HK\$1,000,001 to HK\$1,500,000	–	1
HK\$1,500,001 to HK\$2,000,000	1	–
HK\$2,000,001 to HK\$2,500,000	–	1
	<u>6</u>	<u>6</u>

During the year, three (2002: three) executive directors received emoluments of approximately HK\$1,832,000 (2002: HK\$2,005,000), HK\$974,000 (2002: HK\$1,061,000) and HK\$539,000 (2002: HK\$577,000) respectively. Two (2002: two) independent non-executive directors received emoluments of approximately HK\$80,000 (2002: HK\$93,000) and HK\$80,000 (2002: HK\$93,000) respectively for the year. No emoluments was paid to the remaining one (2002: one) non-executive director.

## Notes to the Financial Statements

Year ended 31 December 2003

### 5. DIRECTORS' EMOLUMENTS (continued)

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 "Share option schemes" in the Directors' Report.

### 6. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2002: three) Directors, details of whose emoluments are set out in note 5 above. The details of the emoluments of the remaining two (2002: two) non-director, highest paid employees are as follows:

	2003 HK\$'000	2002 HK\$'000
Basic salaries, allowances and benefits in kind	1,474	1,583
Discretionary bonuses	75	150
Retirement benefit scheme contributions	24	24
	<u>1,573</u>	<u>1,757</u>

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

	Number of employees	
	2003	2002
Nil to HK\$1,000,000	2	1
HK\$1,000,001 to HK\$1,500,000	–	1
	<u>2</u>	<u>2</u>

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



# Notes to the Financial Statements

Year ended 31 December 2003

## 7. 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\$460,000 (2002: approximately HK\$511,000) represents contributions payable to the MPF Scheme by the Group for the year ended 31 December 2003 at rates specified in the rules of the MPF Scheme. As at 31 December 2003, contributions of approximately HK\$76,000 (2002: approximately HK\$69,000) due in respect of the current reporting year had not been paid over the MPF Scheme.

## 8. TAXATION

The taxation (credit)/charge comprises:

	2003 HK\$'000	2002 HK\$'000
Current tax – Hong Kong profits tax	–	755
Deferred tax – Attributable to a change in tax rate	(204)	–
	<u>(204)</u>	<u>755</u>

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. In 2003, the Hong Kong Government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004.

Deferred taxation is calculated in full on temporary differences under the liability method using a principal tax rate of 17.5% (2002: 16%).

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

## Notes to the Financial Statements

Year ended 31 December 2003

### 8. TAXATION (continued)

The taxation (credit)/charge can be reconciled to the loss before taxation as reported in the income statement as follows:

	2003 HK\$'000	2002 HK\$'000
Loss before taxation	<u>(9,104)</u>	<u>(4,327)</u>
Tax at the applicable tax rate of 17.5% (2002: 16%)	(1,593)	(693)
Tax effect of expenses that are not deductible in determining taxable profit	114	52
Tax effect of income that are not assessable in determining taxable profit	(1)	(68)
Overprovision for current tax	–	(48)
Tax effect of net deferred tax assets not recognised	1,849	1,512
Increase in the opening net deferred tax assets resulting from an increase in the tax rate	<u>(573)</u>	<u>–</u>
Taxation (credit)/charge per income statement	<u><u>(204)</u></u>	<u><u>755</u></u>

### 9. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The Group's net loss attributable to shareholders of approximately HK\$8,900,000 (2002: approximately HK\$5,082,000) included a loss of approximately HK\$1,695,000 (2002: approximately HK\$2,137,000) which has been dealt with in the financial statements of the Company.

### 10. DIVIDEND

No dividends have been paid or declared by the Company during the year (2002: Nil).

### 11. 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\$8,900,000 (2002: approximately HK\$5,082,000) and the weighted average number of 320,000,000 shares for the years ended 31 December 2003 and 2002.

No diluted loss per share is presented as there was no dilutive potential ordinary shares for the years ended 31 December 2003 and 2002.

## Notes to the Financial Statements

Year ended 31 December 2003

### 12. FILM RIGHTS

	<b>Group</b>	
	HK\$'000	
<b>Cost</b>		
At 1 January 2003		109,762
Additions		44,960
Write off		(19,766)
		<hr/>
At 31 December 2003		134,956
		<hr/>
<b>Accumulated amortisation</b>		
At 1 January 2003		94,247
Charge for the year		48,345
Write off		(19,766)
		<hr/>
At 31 December 2003		122,826
		<hr/>
<b>Impairment losses</b>		
At 1 January 2003		210
Recognise for the year		1,000
		<hr/>
At 31 December 2003		1,210
		<hr/>
<b>Net book value</b>		
At 31 December 2003		<u>10,920</u>
At 31 December 2002		<u>15,305</u>
		<hr/>
		<hr/>
	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Analysis of film rights</b>		
Current portion	<b>10,268</b>	10,072
Non-current portion	<b>652</b>	5,233
	<hr/>	<hr/>
	<u><b>10,920</b></u>	<u>15,305</u>
	<hr/>	<hr/>

# Notes to the Financial Statements

Year ended 31 December 2003

## 13. FIXED ASSETS

	Leasehold improvements HK\$'000	Computers HK\$'000	Group Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>Cost</b>					
At 1 January 2003	3,732	3,229	2,418	644	10,023
Additions	—	30	20	—	50
At 31 December 2003	3,732	3,259	2,438	644	10,073
<b>Accumulated depreciation</b>					
At 1 January 2003	2,941	2,111	1,953	460	7,465
Charge for the year	500	595	269	156	1,520
At 31 December 2003	3,441	2,706	2,222	616	8,985
<b>Impairment losses</b>					
At 1 January 2003 and 31 December 2003	—	200	—	—	200
<b>Net book value</b>					
At 31 December 2003	<u>291</u>	<u>353</u>	<u>216</u>	<u>28</u>	<u>888</u>
At 31 December 2002	<u>791</u>	<u>918</u>	<u>465</u>	<u>184</u>	<u>2,358</u>

The aggregate net book value of the Group's fixed assets held under finance leases as at 31 December 2003 amounted to Nil (2002: approximately HK\$197,000).

# Notes to the Financial Statements

Year ended 31 December 2003

## 14. INTERESTS IN SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	42,569	42,569
Due from subsidiaries	39,052	39,160
	<u>81,621</u>	<u>81,729</u>
Impairment losses	(27,610)	–
	<u><b>54,011</b></u>	<u><b>81,729</b></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%	Games distribution and operation of entertainment related portals
Red River Agents Limited	Hong Kong	Ordinary HK\$2	–	100%	Advertising agent

All subsidiaries principally operate in Hong Kong.

# Notes to the Financial Statements

Year ended 31 December 2003

## 15. INTERESTS IN ASSOCIATES

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	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%	In deregistration

## 16. INVESTMENT SECURITIES

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost	–	–
Loan to an investee company	<u>254</u>	<u>254</u>
	<b>254</b>	254
Impairment losses	<u>(254)</u>	<u>(254)</u>
	<u>–</u>	<u>–</u>

## Notes to the Financial Statements

Year ended 31 December 2003

### 16. INVESTMENT SECURITIES *(continued)*

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

### 17. CLUB MEMBERSHIP

	Group	
	2003 HK\$'000	2002 HK\$'000
Club membership, at market value	<u>650</u>	<u>650</u>

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

### 18. DEFERRED TAX ASSETS

	Group	
	2003 HK\$'000	2002 HK\$'000 (restated)
At 1 January	2,296	2,296
Credit to income statement <i>(note 8)</i>	<u>204</u>	<u>—</u>
At 31 December	<u>2,500</u>	<u>2,296</u>

## Notes to the Financial Statements

Year ended 31 December 2003

### 18. DEFERRED TAX ASSETS (continued)

The principal components of the Group's provision for deferred tax, and the net deferred tax asset position not recognised in the financial statements are as follows:

	Provided		Not provided	
	2003 HK\$'000	2002 HK\$'000 (restated)	2003 HK\$'000	2002 HK\$'000 (restated)
Accelerated depreciation allowances	(33)	(120)	225	101
Tax losses	<u>2,533</u>	<u>2,416</u>	<u>5,445</u>	<u>3,720</u>
	<u><b>2,500</b></u>	<u><b>2,296</b></u>	<u><b>5,670</b></u>	<u><b>3,821</b></u>

Deferred tax assets are recognised for tax loss carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The unused tax losses have no expiry date.

### 19. INVENTORIES

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

As at 31 December 2003, the carrying amount of inventories that are carried at net realisable value amounted to approximately HK\$2.2 million (2002: approximately HK\$1 million).

The Group reversed the provision for slow-moving inventories of approximately HK\$1.2 million (2002: approximately HK\$2 million) and wrote off the corresponding cost of approximately HK\$0.9 million (2002: approximately HK\$2 million) as a result of sales and destruction of certain video products.



## Notes to the Financial Statements

Year ended 31 December 2003

### 20. TRADE AND OTHER RECEIVABLES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Trade receivables	27,422	27,610
Other receivables	1,321	1,240
Due from a related party	1,084	847
Due from an associate	3	3
	<u>29,830</u>	<u>29,700</u>

General credit terms of the Group range from 30 days to 90 days. The aged analysis of trade receivables is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Current – 30 days	10,294	8,716
31 – 60 days	6,619	8,188
61 – 90 days	7,769	4,778
91 – 180 days	2,065	4,906
181 – 365 days	342	785
Over 1 year	333	237
	<u>27,422</u>	<u>27,610</u>

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.

## Notes to the Financial Statements

Year ended 31 December 2003

### 21. PLEDGED BANK DEPOSITS/BANKING FACILITIES

The amounts represent time deposits pledged to banks in respect of standby documentary credits issued to a licensor and banking facilities granted to the Group.

As at 31 December 2003 the Group had banking facilities of approximately HK\$11 million which were secured by the Group's bank deposits and corporate guarantee executed by the Company and certain subsidiaries of the Company.

### 22. TRADE AND OTHER PAYABLES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Trade payables	13,521	15,049	–	–
Film rights payables	10,519	5,276	–	–
Other payables	6,432	7,010	736	1,051
Receipts in advance	44	1,676	–	–
Due to an associate	4	4	–	–
Due to related parties	59	89	–	–
	<u>30,579</u>	<u>29,104</u>	<u>736</u>	<u>1,051</u>

The aged analysis of trade payables is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Current – 30 days	3,289	6,173
31 – 60 days	3,467	3,522
61 – 90 days	3,067	3,337
91 – 180 days	1,313	1,497
181 – 365 days	812	153
Over 1 year	1,573	367
	<u>13,521</u>	<u>15,049</u>

# Notes to the Financial Statements

Year ended 31 December 2003

## 22. TRADE AND OTHER PAYABLES *(continued)*

The aged analysis of film rights payables is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Current – 30 days	1,159	1,585
31 – 60 days	1,370	116
61 – 90 days	1,072	241
91 – 180 days	1,255	179
181 – 365 days	1,952	36
Over 1 year	3,711	3,119
	<u>10,519</u>	<u>5,276</u>

Included in trade payables of the Group are trading balances due to ERA Taiwan and DigiCell Entertainment Co., Ltd. (“DigiCell”) of approximately HK\$324,000 and HK\$1,242,000 respectively (2002: approximately HK\$1,161,000 and Nil respectively) (note 27).

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

## 23. SHARE CAPITAL

	Company	
	2003 HK\$'000	2002 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>

# Notes to the Financial Statements

Year ended 31 December 2003

## 24. SHARE OPTION SCHEME

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

	Number of share options	
	2003	2002
At 1 January	7,340,000	7,970,000
Lapsed	(710,000)	(630,000)
	<hr/>	<hr/>
At 31 December	<b>6,630,000</b>	<b>7,340,000</b>

## 24. 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 2003.

## 25. CONTINGENT LIABILITIES

- (a) As at 31 December 2003 the Group's contingent liability in respect of long service payments was approximately HK\$1,943,000 (2002: approximately HK\$1,905,000). No provision has been made for this amount as at 31 December 2003.
- (b) Unlimited corporate guarantee was given by the Company to a bank in respect of banking facilities granted to certain subsidiaries of the Company.

# Notes to the Financial Statements

Year ended 31 December 2003

## 26. COMMITMENTS

As at 31 December 2003 the Group had the following commitments:

### (a) Operating lease commitments

	<b>Group</b>	
	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Total future minimum lease payments under non-cancellable operating leases in respect of office premises and office equipment are as follows:		
Within one year	85	2,045
In the second to fifth years	—	85
	<u>85</u>	<u>2,130</u>

### (b) Other commitments

	<b>Group</b>	
	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Unpaid purchase costs due to suppliers	6,766	425
Unpaid film rights due to licensors	2,083	3,340
Unpaid capital contribution for the investment in a subsidiary	269	—
Unpaid capital contribution for the investment in an associate	—	116
	<u>—</u>	<u>116</u>

The Company did not have any significant commitments as at 31 December 2003.

# Notes to the Financial Statements

Year ended 31 December 2003

## 27. RELATED PARTY TRANSACTIONS

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Consultancy fee paid to a director, Mr. Chiu Fu Sheng ( <i>note 1</i> )	480	280
Distribution income received from Era International (HK) Limited (“EIHK”)	21	43
Purchases from ERA Taiwan ( <i>note 2</i> )	1,938	1,111
Purchases from DigiCell ( <i>note 2</i> )	<u>1,242</u>	<u>–</u>

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

### 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. The agreement was terminated on 1 June 2003 and replaced by a new consultancy agreement. Pursuant to the new agreement, the Group appointed Mr. Chiu as a consultant in respect of the entertainment-related business, including but not limited to the development and operation of cinema business and game business, for the period since 1 June 2003 at HK\$40,000 per month.
2. On 26 November 2002, the Group, ERA Taiwan and 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 of 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 2003

## 28. SEGMENTAL INFORMATION

### (a) Primary reporting format – business segments

	Home video products distribution		Theatrical, television rights distribution and film rights sub-licensing		Games distribution and online business		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>REVENUE</b>										
External revenue	85,049	105,766	12,205	4,909	9,256	1,229	-	-	106,510	111,904
Inter-segment revenue *	-	-	-	3	1,610	2,365	(1,610)	(2,368)	-	-
Total revenue	<u>85,049</u>	<u>105,766</u>	<u>12,205</u>	<u>4,912</u>	<u>10,866</u>	<u>3,594</u>	<u>(1,610)</u>	<u>(2,368)</u>	<u>106,510</u>	<u>111,904</u>
<b>RESULT</b>										
Segment result	<u>(1,585)</u>	<u>7,977</u>	<u>(1,220)</u>	<u>(3,677)</u>	<u>(1,341)</u>	<u>(2,777)</u>	<u>480</u>	<u>16</u>	<u>(3,666)</u>	<u>1,539</u>
Unallocated corporate expenses									<u>(5,415)</u>	<u>(5,942)</u>
Operating loss excluding interest income									<u>(9,081)</u>	<u>(4,403)</u>
Interest expenses									<u>(44)</u>	<u>(52)</u>
Interest income									<u>21</u>	<u>128</u>
Loss before taxation									<u>(9,104)</u>	<u>(4,327)</u>
Taxation									<u>204</u>	<u>(755)</u>
Net loss for the year									<u><u>(8,900)</u></u>	<u><u>(5,082)</u></u>

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



# Notes to the Financial Statements

Year ended 31 December 2003

## 28. SEGMENTAL INFORMATION (continued)

### (a) Primary reporting format – business segments (continued)

	Home video products distribution		Theatrical, television rights distribution and film rights sub-licensing		Games distribution and online business		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>ASSETS</b>										
Segment assets	59,802	66,296	3,230	10,305	16,632	9,861	-	(832)	79,664	85,630
Interests in associates									156	156
Unallocated corporate assets									6,189	7,765
Consolidated total assets									<u>86,009</u>	<u>93,551</u>
<b>LIABILITIES</b>										
Segment liabilities	25,799	19,396	2,344	7,488	3,121	2,343	(1,450)	(1,202)	29,814	28,025
Unallocated corporate liabilities									802	1,233
Consolidated total liabilities									<u>30,616</u>	<u>29,258</u>
<b>OTHER INFORMATION</b>										
Capital expenditure	44,075	832	913	844	22	100	-	-	45,010	1,776
Depreciation and amortisation	45,515	47,570	3,754	3,206	596	580	-	-	49,865	51,356
Impairment losses	788	-	212	-	-	-	-	-	1,000	-
Provision for inventories	1,105	370	-	-	1,000	590	-	-	2,105	960
Non-cash expenses other than depreciation, amortisation, impairment losses and provision for inventories	1,347	523	-	-	69	159	-	-	1,416	682

(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 2003

## **29. COMPARATIVE FIGURES**

As already explained in note 2 to the financial statements, due to the adoption of SSAP 12 (revised) during the current year, the presentation of relevant items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative figures have been reclassified to conform to the current year's presentation.

## **30. ULTIMATE HOLDING COMPANY**

The Directors consider ERA Taiwan, a company incorporated in Taiwan, to be the Company's ultimate holding company.

## **31. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved by the board of Directors on 17 March 2004.