



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



Annual Report 2004

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

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Corporate Information

Executive Director

Leung Chung Chu, Andrew (*Chairman*)
Yau Kar Man
Ng Wai Lun
Keung Chi Wai

Independent non-executive Director

Chan Kin Wo
Yow Cecil
Yim Chun Leung

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, CPA*

Compliance officer

Leung Chung Chu, Andrew

Audit committee

Chan Kin Wo (*Chairman*)
Yow Cecil
Yim Chun Leung

Authorised representatives

Leung Chung Chu, Andrew
Ng Wai Lun

Auditors

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

Principal share registrar and transfer office in Cayman Islands

Bank of Bermuda (Cayman) Limited
P.O. Box 513 GT
2nd Floor, Strathvale House
North Church Street
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

Principal bankers

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

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

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 to 3 below:

	Year ended 31 December				
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
TURNOVER	<u>84,344</u>	<u>105,689</u>	<u>111,218</u>	<u>118,353</u>	<u>103,146</u>
(LOSS)/PROFIT FROM OPERATING ACTIVITIES	(9,560)	(9,060)	(4,275)	1,582	999
Finance costs	(57)	(44)	(52)	(273)	(61)
Share of losses of associates	<u>(156)</u>	<u>–</u>	<u>–</u>	<u>(800)</u>	<u>(704)</u>
(LOSS)/PROFIT BEFORE TAXATION	(9,773)	(9,104)	(4,327)	509	234
Taxation	<u>–</u>	<u>204</u>	<u>(755)</u>	<u>(2,186)</u>	<u>(1,228)</u>
LOSS AFTER TAXATION	(9,773)	(8,900)	(5,082)	(1,677)	(994)
Minority interest	<u>1,136</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS	<u>(8,637)</u>	<u>(8,900)</u>	<u>(5,082)</u>	<u>(1,677)</u>	<u>(994)</u>
			At 31 December		
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000 (restated)	2001 HK\$'000	2000 HK\$'000
Total assets	75,026	86,009	93,551	91,106	52,220
Total liabilities	<u>(28,265)</u>	<u>(30,616)</u>	<u>(29,258)</u>	<u>(24,027)</u>	<u>(32,650)</u>
NET ASSETS	<u>46,761</u>	<u>55,393</u>	<u>64,293</u>	<u>67,079</u>	<u>19,570</u>

Notes:

- The Company was incorporated in the Cayman Islands 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 the year ended 31 December 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 the year presented.
- The above financial summary as of and for the years ended 31 December 2003 and 2004 have been extracted from the audited financial statements of the Group as set out on pages 24 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 its subsidiaries (the "Company" and collectively the "Group"), I am pleased to present the annual results for the year ended 31 December 2004.

The year ended 31 December 2004 was still a difficult year for the entertainment industry as well as for the Group. Despite of the economy recovery from the Severe Acute Respiratory Syndrome ("SARS") impact, consumption atmosphere in the films and entertainment industry remains weak. In addition to the piracy problem, illegal internet download of entertainment contents becomes more serious and has adversely affected the entertainment industry.

To enhance its core business of distribution of home video products, the Group continues to obtain more blockbusters and high quality titles. With the well established relationship with major Hollywood studios, we expect the Group will continue to be one of the leading home video products distributors in Hong Kong.

For the year ended 31 December 2004, the Group's games distribution business showed a positive growth. To enhance this new stream of business, the Group has recently obtained exclusive distribution rights of five high quality online games, in addition to its two existing games, for the Hong Kong market. We will put more effort in this new stream of business and look for a satisfactory return in the coming future.

The Group's subsidiary company in the People's Republic of China ("PRC"), 北京年恩長影文化傳播有限公司 ("年恩"), was established during the year 2004, and is developing its business network. 年恩 has started to arrange film titles for theatrical release in the PRC. We expect the business of 年恩 as well as the large film market of the PRC will enhance the income stream of the Group.

On behalf of the Board

Leung Chung Chu, Andrew

Chairman

Hong Kong, 17 March 2005



Management Discussion and Analysis

FINANCIAL PERFORMANCE

For the year ended 31 December 2004, the Group recorded a turnover of approximately HK\$84.3 million (2003: approximately HK\$105.7 million). Loss attributable to shareholders amounted to approximately HK\$8.6 million (2003: approximately HK\$8.9 million).

Decrease in the turnover is mainly due to drop in the sales of home video products by approximately 19% when compared with that of year ended 31 December 2003, and a decrease in the turnover of the theatrical film rights distribution business of approximately 78% when compared with that of last year.

In addition to the weak market condition, the Group has released less blockbuster titles during the year ended 31 December 2004, this contributed as one of the main reasons for the decrease in the sales of home video products. While the Group has distributed the Golden Globe and Oscar winning title “Chicago” during the year 2003, it has adopted a cautious approach in acquiring theatrical release film rights, and the Group has only distributed one film title in Hong Kong for the theatrical release for the year ended 31 December 2004. This caused a substantial decrease in the turnover of the theatrical film rights distribution business.

On the other hand, turnover of the games distribution business brings us an encouraging results, as it recorded a rise of approximately 41% when compared with that of the year ended 31 December 2003.

Since the Group has adopted a cautious approach for the theatrical, television release and film rights sub-licensing business in Hong Kong, a provision for its film rights of approximately HK\$3.7 million has been made for prudence sake. Due to the continuing weak market condition, the Group has also made a provision for its inventory of approximately HK\$0.8 million, and impairment of value on deferred tax assets of approximately HK\$1.2 million.

BUSINESS REVIEW

Despite facing an overall weak industrial climate, the Group released a number of new home video titles including some blockbusters, such as “Shrek 2”, “Spider-Man 2”, “The Terminal”, and “Love Actually”. Overall number of home video titles released during the year ended 31 December 2004 is less than those of the year 2003, this is also one of the main reasons for the decrease in the turnover of the Group. In addition to the decrease in the number of new home video titles released in the year under review, the increasingly serious problem of illegal internet download of entertainment contents, piracy, and illegal home video rental business also adversely affected the sales of home video products of the Group for the year ended 31 December 2004. However, the Group is one of the committee member of the Hong Kong Video Development Foundation, which has submitted a joint submission paper to the Commerce, Industry and Technology Bureau in response to the public consultation on the Review of Copyright Ordinance with focus on including a digital agenda in order to strengthen the protection of intellectual property in the digital and internet environment. Thus, the Group expects that the problem of illegal internet download will improve in the future.



Management Discussion and Analysis

BUSINESS REVIEW *(continued)*

Due to a cautious approach in scheduling the release of theatrical film titles, the Group has only distributed one film title in Hong Kong during the year under review, while the results of which were below the Group's expectation. The Group has not acquired any additional new Hong Kong film rights during the year ended 31 December 2004, it intends to look for agency deals to minimise the commercial risks.

During the year under review, the Group is distributing two online games in Hong Kong, namely "Asgard" and "Talesweaver". Nevertheless, the result is satisfactory as the turnover of the games distribution business increased by approximately 41% when compared with that of last year. The Group is putting more effort to enhance the games distribution business, and more high quality online games are expected to be distributed by it in the year 2005.

The subsidiary in the PRC, 年恩, has incurred pre-operating costs and some operating losses as it was in the course of establishing its business network, the Group shared a loss of approximately HK\$2 million during the year under review. 年恩 started to arrange theatrical release in the PRC during the year of 2004, the result is encouraging as a Hong Kong film title, being arranged by 年恩, recorded the PRC box office being more than 10 times of that of the Hong Kong box office of the same film title.

PROSPECTS

The Group will continue to enhance its core business of home video distribution. Make use of its well established relationship with major Hollywood studios, the Group will maintain its status as one of the leading home video distributors in Hong Kong. In 2005, new home video titles recently released by the Group including blockbusters such as "Kung Fu Hustle", "Bridget Jones: The Edge Of Reason" and "Shark Tale", while some other major video titles are expected to be released by the Group in 2005 including "Meet The Fockers", "Closer", and "Hitch", etc.

In view of the growing online games market, the Group has recently obtained exclusive distribution rights of five online games for the Hong Kong market, namely 神武, 榮耀, 秘密, MOOG and 王道. Due to such reason, the Group expects that the games distribution business will show a substantial growth, and this business will generate more stable income in the year 2005.

In view of the large PRC film market and the encouraging box office result of the film title arranged by 年恩, the Group believes that the PRC market provides a potential chance of high growth for the Group as well as of geographical diversification in the long run.



Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally financed its operations and investing activities with internally generated cashflows.

As at 31 December 2004, the Group had net current assets of approximately HK\$43.9 million, of which approximately HK\$2.0 million and HK\$19.1 million (2003: approximately HK\$6.0 million and HK\$15.3 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

Transactions of the Group were mainly 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.

CAPITAL STRUCTURE

As at 31 December 2004, the Group's net assets were financed by internal resources through share capital and reserves. Total equity attributable to shareholders was approximately HK\$47 million as at 31 December 2004, representing a decrease of approximately 15% over last year.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2004, the Group's time deposits of approximately HK\$2 million were pledged to banks in respect of 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 2004, the Group did not have any long term obligations.



Management Discussion and Analysis

CAPITAL COMMITMENTS

As at 31 December 2004, the Group had commitments of unpaid film rights of approximately HK\$2.5 million due to licensors and commitments of unpaid purchase costs of approximately HK\$1.8 million due to suppliers.

CONTINGENT LIABILITIES

As at 31 December 2004, the Group had contingent liabilities in respect of long service payments of approximately HK\$1.9 million.

EMPLOYEE INFORMATION

As at 31 December 2004, the Group had a total of 47 employees. The total staff costs, including directors' emoluments, amounted to approximately HK\$14.2 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.



Directors Profiles

DIRECTORS

Executive Directors

Mr. LEUNG Chung Chu, Andrew, aged 48, 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, films rights and TV rights distribution, as well as 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.

Mr. YAU Kar Man, aged 46, is also an executive director of Era Digital Media Limited, a wholly-owned subsidiary of the Company engaged mainly in the games distribution business. 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 the Hong Kong Polytechnic University. He has 10 years' experience in accounting and audit field.

Mr. NG Wai Lun, aged 42, is also the company secretary of the Company. Mr. Ng joined the Group in March 2000. He is responsible for the Group's finance, corporate projects and investments, as well as company secretarial matters. Mr. Ng is a fellow member of the Association of Chartered Certified Accountants and a Certified Public Accountant of the Hong Kong Institute of Certified Public 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. KEUNG Chi Wai, aged 39, is also the 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 home video distribution business of the Group. 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.



Directors Profiles

DIRECTORS *(continued)*

Independent non-executive Directors

Mr. CHAN Kin Wo, aged 49, is a solicitor having been in active practice in Hong Kong since 1988. He is qualified also in England and Wales, Australia and Singapore. He opened his partnership firm Tsang, Chan & Woo, Solicitors & Notaries in 1992 and has been the partner since then. Mr. Chan was appointed as an independent non-executive Director in January 2001.

Mr. YOW, Cecil, aged 51, 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 appointed as an independent non-executive Director in January 2001.

Mr. YIM Chun Leung, aged 42, is a chief financial officer of a private company in Hong Kong which engages in investment and property holding businesses. Mr. Yim is a fellow member of the Association of Chartered Certified Accountants and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants. He has more than 20 years' experience in auditing, accounting and finance fields. Mr. Yim was appointed as an independent non-executive Director in September 2004.



Directors' Report

The Directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 15 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 personal computer games and online games principally derived in Hong Kong. The analysis of the principal activities and geographical locations of the operations of the Group are set out in note 30 to the financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2004 and the state of the affairs of the Company and the Group at that date are set out in the financial statements on pages 24 to 64.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2004.

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 during the year are set out in note 14 to the financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2004 are set out in note 15 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the Company's share capital and share options during the year are set out in notes 25 and 26 to the financial statements respectively.



Directors' Report

RESERVES

Movements in the reserves of the Company and the Group during the year are set out in the statement of changes in equity on pages 26 and 27.

DISTRIBUTABLE RESERVES

At 31 December 2004, the Company's reserves available for cash distribution and/or distribution in specie amounted to approximately HK\$44 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 of the Company.

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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year under review.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers accounted for approximately 50% of the total sales for the year and the sales attributable to the largest customer included therein amounted to approximately 18%.

The aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 83% of the total purchases for the year and the purchases attributable to the largest supplier included therein amounted to approximately 29%.

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' Report

DIRECTORS

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

Executive directors

Mr. Leung Chung Chu, Andrew (Chairman)

Mr. Yau Kar Man

Mr. Ng Wai Lun (appointed on 1 March 2005)

Mr. Keung Chi Wai (appointed on 1 March 2005)

Madam Yau Sui Ha, Cecilia (resigned on 1 December 2004)

Non-executive director

Mr. Chiu Fu Sheng (resigned on 30 April 2004)

Independent non-executive directors

Mr. Chan Kin Wo

Mr. Yow Cecil

Mr. Yim Chun Leung (appointed on 30 September 2004)

In accordance with article 86(3) of the Company's articles of association, Mr. Ng Wai Lun, Mr. Keung Chi Wai and Mr. Yim Chun Leung, being the Directors newly appointed, will retire, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company. In accordance with articles 87 (1) and (2) of the Company's articles of association, Mr. Yow Cecil will retire by rotation and, being eligible, will offer himself for re-election at the forthcoming annual general meeting of the Company.

BIOGRAPHICAL DETAILS OF THE DIRECTORS

Biographical details of the Directors are set out on pages 9 to 10 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' Report

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Leung Chung Chu, Andrew and Mr. Yau Kar Man has entered into a service contract with the Company for a term of three years commencing from 1 June 2001. Each of Mr. Leung Chung Chu, Andrew and Mr. Yau Kar Man has entered into a renewed service agreement with the Company for a term of one year commencing from 1 June 2004. Each of Mr. Ng Wai Lun and Mr. Keung Chi Wai has entered into a service contract with the Company for a term of one year commencing from 1 March 2005. All of the executive Directors' service contracts will automatically continue after their respective expiry terms until terminated by either party giving not less than three months' notice in writing.

Each of Mr. Chan Kin Wo and Mr. Yow Cecil has been appointed for a term of two years commencing from 1 June 2003 while Mr. Yim Chun Leung has been appointed for a term of two years commencing from 30 September 2004. All of them are subject to retirement by rotation in accordance with the Company's articles of association.

The Company confirms that it has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to Rule 5.09 of the Rules Governing the Listing of the Securities on the GEM (the "GEM Listing Rules") and the Company considers the independent non-executive Directors to be independent.

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 2004, 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 Rule 5.46 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 percentage of issued share capital
Mr. Leung Chung Chu, Andrew	Beneficial owner	25,000,000 ordinary shares (long position)	7.81%



Directors' Report

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)	Approximate percentage of issued share capital
Mr. Leung Chung Chu, Andrew	Beneficial owner	share options to subscribe for shares (1,200,000 ordinary shares) <i>(Note)</i>	0.38%
Mr. Yau Kar Man	Beneficial owner	share options to subscribe for shares (400,000 ordinary shares) <i>(Note)</i>	0.13%
Mr. Chan Kin Wo	Beneficial owner	share options to subscribe for shares (400,000 ordinary shares) <i>(Note)</i>	0.13%
Mr. Yow Cecil	Beneficial owner	share options to subscribe for shares (400,000 ordinary shares) <i>(Note)</i>	0.13%

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	Number and class of shares held	Approximate percentage of issued share capital
Mr. Leung Chung Chu, Andrew	Winning Scope Sdn. Bhd.	Beneficial owner	400,000 ordinary shares (long position) <i>(Note)</i>	8.26%

Note: 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 2004, 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 2004, 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 taken 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 5.46 to 5.68 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 who resigned as non-executive director on 30 April 2004, and certain companies in which Mr. Chiu Fu Sheng has beneficial interest. The particulars of these transactions are set out in note 29 to the financial statements.



Directors' Report

DIRECTORS' INTERESTS IN CONTRACTS *(continued)*

Save as disclosed in note 29 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 thereof during the year under review.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, 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	Capacity	Number and class of shares held	Approximate percentage of issued share capital
Mr. Chiu Fu Sheng	Interest of controlled corporation	180,000,000 ordinary shares (long position) <i>(Note)</i>	56.25%
年代網際事業股份有限公司 (Era Communications Co., Ltd.) ("ERA Taiwan")	Interest of controlled corporation	180,000,000 ordinary shares (long position) <i>(Note)</i>	56.25%
5D Technology Holdings Ltd. ("5D Technology")	Beneficial owner	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 51.19% of the issued share capital of ERA Taiwan.

Save as disclosed above, as at 31 December 2004, 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 2004	Lapsed during the year under review	Outstanding as at 31 December 2004
<i>Executive directors</i>					
Mr. Leung Chung Chu, Andrew	5 June 2001	1,200,000	1,200,000	–	1,200,000
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 1)	5 June 2001	4,560,000	3,330,000	110,000	3,220,000
Consultant	5 June 2001	700,000	300,000	–	300,000
Madam Yau Sui Ha, Cecilia (Note 2)	5 June 2001	600,000	600,000	–	600,000
Total			6,630,000	110,000	6,520,000

Notes:

1. Employees are those working under employment contracts regarded as "continuous contracts" under the Employment Ordinance (Chapter 57 of the laws of Hong Kong).
2. Madam Yau Sui Ha, Cecilia has resigned as a Director with effect from 1 December 2004.



Directors' Report

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 2004.

Details of the Pre-IPO Share Option Scheme and the Share Option Scheme are set out in note 26 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 29 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 29 to the financial statements), the transactions contemplated thereof (the "Contemplated Transaction") 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). During the year, purchases relating to the Contemplated Transaction amounted to approximately HK\$3.6 million. Subsequent to the balance sheet date, purchases relating to the Contemplated Transaction in connection with the Group's purchase orders placed before the expiry of the Distribution Agreement in November 2004 amounted to approximately HK\$0.3 million.

The independent non-executive directors have reviewed the connected transactions set out in note 29 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\$18,200,000 for the financial year ended 31 December 2004.

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

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 2004, 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 5.28 to 5.33 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 three independent non-executive Directors, Mr. Chan Kin Wo, Mr. Yow Cecil and Mr. Yim Chun Leung. The Committee met on a quarterly basis during the year under review.

BOARD PRACTICES AND PROCEDURES

The Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules during the year under review.

COMPLIANCE WITH RULES 5.48 TO 5.67 OF THE GEM LISTING RULES

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the year ended 31 December 2004. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings throughout the year ended 31 December 2004.



Directors' Report

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 of the Company's shares on GEM on 28 June 2001.

On behalf of the Board

Leung Chung Chu, Andrew

Chairman and Executive Director

Hong Kong, 17 March 2005



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 24 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 financial statements and to report our opinion solely to you, as a body, 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 Institute of Certified Public 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.



Auditors' Report

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 2004 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 2005



Consolidated Income Statement

Year ended 31 December 2004

	<i>Note</i>	2004 HK\$'000	2003 HK\$'000
TURNOVER	3	84,344	105,689
Cost of sales		<u>(65,109)</u>	<u>(85,097)</u>
Gross profit		19,235	20,592
Other revenue	3	417	842
Selling and distribution costs		(8,064)	(7,395)
Administrative expenses		(19,858)	(21,683)
Other operating expenses		<u>(1,290)</u>	<u>(1,416)</u>
LOSS FROM OPERATING ACTIVITIES	4	(9,560)	(9,060)
Finance costs	8	(57)	(44)
Share of loss of an associate		<u>(156)</u>	<u>–</u>
LOSS BEFORE TAXATION		(9,773)	(9,104)
Taxation	9	<u>–</u>	<u>204</u>
LOSS AFTER TAXATION		(9,773)	(8,900)
Minority interest		<u>1,136</u>	<u>–</u>
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS	10	<u>(8,637)</u>	<u>(8,900)</u>
Loss per share – Basic	12	<u>HK(2.70) cents</u>	<u>HK(2.78) cents</u>

The notes on pages 31 to 64 form an integral part of these financial statements.



Consolidated Balance Sheet

31 December 2004

	<i>Note</i>	2004 HK\$'000	2003 HK\$'000
NON-CURRENT ASSETS			
Film rights	13	–	652
Fixed assets	14	894	888
Interests in associates	16	–	156
Club membership	18	650	650
Deferred tax assets	19	1,315	2,500
		<u>2,859</u>	<u>4,846</u>
CURRENT ASSETS			
Inventories	20	6,197	8,515
Current portion of film rights	13	7,322	10,268
Trade and other receivables	21	26,085	29,830
Prepayments and deposits		11,416	10,383
Tax recoverable		–	880
Pledged bank deposits	22	2,011	5,950
Bank and cash balances	23	19,136	15,337
		72,167	81,163
CURRENT LIABILITIES			
Trade and other payables	24	28,215	30,579
Bank overdraft – secured	22	50	37
		<u>28,265</u>	<u>30,616</u>
NET CURRENT ASSETS		<u>43,902</u>	<u>50,547</u>
NET ASSETS		<u>46,761</u>	<u>55,393</u>
CAPITAL AND RESERVES			
Share capital	25	3,200	3,200
Reserves		43,561	52,193
SHAREHOLDERS' FUNDS		<u>46,761</u>	<u>55,393</u>

Approved by the Board of Directors on 17 March 2005

Leung Chung Chu, Andrew
Chairman and Executive Director

Yau Kar Man
Executive Director

The notes on pages 31 to 64 form an integral part of these financial statements.



Statement of Changes in Equity

Year ended 31 December 2004

	Group				
	Share capital HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2003	3,200	65,991	–	(4,898)	64,293
Net loss for the year	–	–	–	(8,900)	(8,900)
At 31 December 2003 and 1 January 2004	3,200	65,991	–	(13,798)	55,393
Net loss for the year	–	–	–	(8,637)	(8,637)
Exchange difference	–	–	5	–	5
At 31 December 2004	<u>3,200</u>	<u>65,991</u>	<u>5</u>	<u>(22,435)</u>	<u>46,761</u>
Retained by:					
Company and subsidiaries	3,200	65,991	5	(18,014)	51,182
Associates	–	–	–	(4,421)	(4,421)
At 31 December 2004	<u>3,200</u>	<u>65,991</u>	<u>5</u>	<u>(22,435)</u>	<u>46,761</u>
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>–</u>	<u>(13,798)</u>	<u>55,393</u>

The notes on pages 31 to 64 form an integral part of these financial statements.



Statement of Changes in Equity

Year ended 31 December 2004

	Company			Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Accumulated losses HK\$'000	
At 1 January 2003	3,200	84,553	(3,055)	84,698
Net loss for the year	<u>—</u>	<u>—</u>	<u>(29,305)</u>	<u>(29,305)</u>
At 31 December 2003 and 1 January 2004	3,200	84,553	(32,360)	55,393
Net loss for the year	<u>—</u>	<u>—</u>	<u>(8,372)</u>	<u>(8,372)</u>
At 31 December 2004	<u><u>3,200</u></u>	<u><u>84,553</u></u>	<u><u>(40,732)</u></u>	<u><u>47,021</u></u>

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 a group reorganisation scheme completed in 2001, 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 same group reorganisation scheme, over the nominal value of the shares of the Company issued in exchange therefor.
- (c) In accordance with the Companies Law (2003 Revised) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

The notes on pages 31 to 64 form an integral part of these financial statements.



Consolidated Cash Flow Statement

Year ended 31 December 2004

	2004 HK\$'000	2003 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss from operating activities	(9,560)	(9,060)
Adjustments for:		
Amortisation of film rights	30,230	48,345
Depreciation	820	1,520
Bad debts written off	32	33
Provision for doubtful debts	131	1,383
Provision for doubtful debts written back	(58)	–
Inventories written off	800	898
Impairment losses on film rights	3,688	1,000
Impairment losses on deferred tax assets	1,185	–
Interest income	(67)	(21)
Operating profit before working capital changes	27,201	44,098
Decrease/(increase) in inventories	1,518	(991)
Decrease/(increase) in trade and other receivables	3,640	(1,546)
Increase in prepayments and deposits	(1,033)	(2,912)
(Decrease)/increase in trade and other payables	(2,364)	1,475
Cash generated from operations	28,962	40,124
Bank overdraft interest	(3)	–
Interest on loan from a minority equity holder of a subsidiary	(54)	–
Finance lease charges	–	(44)
Hong Kong profits tax refund/(paid)	880	(81)
Net cash generated from operating activities	29,785	39,999
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(826)	(50)
Purchases of film rights	(30,320)	(44,960)
Decrease/(increase) in pledged bank deposits	3,939	(3,150)
Interest income	67	21
Net cash used in investing activities	(27,140)	(48,139)

The notes on pages 31 to 64 form an integral part of these financial statements.



Consolidated Cash Flow Statement

Year ended 31 December 2004

2004	2003
HK\$'000	HK\$'000

CASH FLOWS FROM FINANCING ACTIVITIES

Injection of capital from a minority equity holder of a subsidiary	1,136	–
Payment of finance lease capital element	–	(154)
Net cash generated from/(used in) financing activities	<u>1,136</u>	<u>(154)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	3,781	(8,294)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	15,300	23,594
Effect of foreign exchange rate change	<u>5</u>	<u>–</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	<u><u>19,086</u></u>	<u><u>15,300</u></u>

ANALYSIS OF CASH AND CASH EQUIVALENTS

Bank and cash balances	19,136	15,337
Bank overdraft – secured	<u>(50)</u>	<u>(37)</u>
	<u><u>19,086</u></u>	<u><u>15,300</u></u>

The notes on pages 31 to 64 form an integral part of these financial statements.



Balance Sheet

31 December 2004

	<i>Note</i>	2004 HK\$'000	2003 HK\$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	15	<u>34,610</u>	<u>54,011</u>
CURRENT ASSETS			
Other receivables		4	2
Prepayments and deposits		142	27
Pledged bank deposits	22	2,011	2,000
Bank and cash balances	23	10,583	126
		12,740	2,155
CURRENT LIABILITIES			
Other payables	24	539	736
Bank overdraft – secured	22	50	37
		<u>589</u>	<u>773</u>
NET CURRENT ASSETS		<u>12,151</u>	1,382
NET ASSETS		<u>46,761</u>	<u>55,393</u>
CAPITAL AND RESERVES			
Share capital	25	3,200	3,200
Reserves		43,561	52,193
SHAREHOLDERS' FUNDS		<u>46,761</u>	<u>55,393</u>

Approved by the Board of Directors on 17 March 2005

Leung Chung Chu, Andrew
Chairman and Executive Director

Yau Kar Man
Executive Director

The notes on pages 31 to 64 form an integral part of these financial statements.



Notes of the Financial Statements

Year ended 31 December 2004

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 15 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

Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of the Securities on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "GEM Listing Rules").

Basis of preparation

The financial statements have been prepared under the historical cost convention as modified by revaluation of certain investments.

HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.



Notes of the Financial Statements

Year ended 31 December 2004

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

Revenue recognition

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

Games distribution represents sales of personal computer ("PC") games and online games and is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the PC games and online games are delivered and title has been passed to the customers.

Theatrical income is recognised when the film is released.

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

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

Online business income represents online advertising income, which 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.



Notes of the Financial Statements

Year ended 31 December 2004

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

Operating leases

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

Foreign currency translation

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

On consolidation, the balance sheets of subsidiaries and associates expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the income statements are translated at average rates. Exchange differences are dealt with as a movement in reserves.

For the purpose of the consolidated cash flow statement, the cash flows of subsidiaries expressed in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of subsidiaries expressed in foreign currencies which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

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 retirement scheme are expensed as incurred.



Notes of the Financial Statements

Year ended 31 December 2004

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

Employee benefits *(continued)*

(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 Hong Kong 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.

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.



Notes of the Financial Statements

Year ended 31 December 2004

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

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowable. Profits tax is provided at the rate prevailing for the year based on the assessable profit for the year less allowable losses, if any, brought forward.

Deferred taxation is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred taxation is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity.

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.



Notes of the Financial Statements

Year ended 31 December 2004

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

Film rights *(continued)*

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 consolidated income statement in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

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

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

Subsidiaries

A subsidiary is an entity controlled by the Group. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity 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 by the Company on the basis of dividends received and receivable.



Notes of the Financial Statements

Year ended 31 December 2004

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

Associates

An associate is an entity 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 consolidated income statement.

Transfer from the investment revaluation reserve to the consolidated income statement as a result of impairments are written back in the consolidated 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.



Notes of the Financial Statements

Year ended 31 December 2004

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

Inventories *(continued)*

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 consolidated 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 consolidated income statement.

Provisions and contingent liabilities

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

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

Event after the balance sheet date

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



Notes of the Financial Statements

Year ended 31 December 2004

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

Related parties

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

Cash and cash equivalents

Cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value, having been within three months of maturity at acquisition. For the purpose of the cash flow statement, bank overdrafts which are repayable on demand and form an integral part of an enterprise's cash management are also included as a component of cash and cash equivalents.

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 terms mutually agreed between the segments.

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

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

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



Notes of the Financial Statements

Year ended 31 December 2004

3. TURNOVER AND REVENUE

The Group is principally engaged in home video products distribution, theatrical and television rights distribution, film rights sub-licensing, games distribution and online business. An analysis of the Group's turnover and revenue is as follows:

	2004 HK\$'000	2003 HK\$'000
Turnover		
Sales of home video products	68,814	85,028
Theatrical, television release and film rights sub-licensing	2,537	11,405
Games distribution and online business (note)	12,993	9,256
	<u>84,344</u>	<u>105,689</u>
Other revenue		
Bank interest income	67	21
Distribution income	15	21
Facilities charges income	15	-
Marketing income	320	800
	<u>417</u>	<u>842</u>
	<u><u>84,761</u></u>	<u><u>106,531</u></u>

Note: Games distribution and online business includes sales of PC games and online games of approximately HK\$12,872,000 (2003: HK\$9,133,000) and online advertising income of approximately HK\$121,000 (2003: HK\$123,000) for the year.



Notes of the Financial Statements

Year ended 31 December 2004

4. LOSS FROM OPERATING ACTIVITIES

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

	2004 HK\$'000	2003 HK\$'000
Amortisation of film rights (included in cost of sales)	30,230	48,345
Auditors' remuneration	410	460
Bad debts written off	32	33
Cost of inventories sold (<i>note</i>)	24,594	27,226
Depreciation	820	1,520
Impairment losses on deferred tax assets (included in other operating expenses) (<i>note 19</i>)	1,185	–
Impairment losses on film rights (included in cost of sales)	3,688	1,000
Operating lease rentals in respect of land and buildings	1,711	2,040
Provision for doubtful debts	131	1,383
Provision for doubtful debts written back	(58)	–
Provision for inventories	800	2,105
Staff costs including directors' emoluments		
Salaries and other costs	13,747	13,890
Retirement benefit scheme contributions	493	460
	14,240	14,350

Note: Cost of inventories sold includes provision for inventories of approximately HK\$800,000 (2003: HK\$2,105,000) which is included in the amount disclosed separately above for the year.



Notes of the Financial Statements

Year ended 31 December 2004

5. DIRECTORS' EMOLUMENTS

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

	2004 HK\$'000	2003 HK\$'000
Fees		
Executive directors	–	–
Non-executive director	–	–
Independent non-executive directors	188	160
Other emoluments		
Executive directors		
Basic salaries, allowances and benefits in kind	3,229	3,309
Discretionary bonuses	–	–
Retirement benefit scheme contributions	35	36
	<u>3,452</u>	<u>3,505</u>

The emoluments of the Directors fell within the following bands:

	Number of directors	
	2004	2003
Nil to HK\$1,000,000	6	5
HK\$1,500,001 to HK\$2,000,000	1	1
	<u>7</u>	<u>6</u>

During the year, three (2003: three) executive directors received emoluments of approximately HK\$1,832,000 (2003: HK\$1,832,000), HK\$893,000 (2003: HK\$974,000) and HK\$539,000 (2003: HK\$539,000) respectively. Three (2003: two) independent non-executive directors received emoluments of approximately HK\$80,000 (2003: HK\$80,000), HK\$80,000 (2003: HK\$80,000) and HK\$28,000 (2003: Nil) respectively for the year. No emoluments were paid to the non-executive director (2003: Nil).



Notes of the Financial Statements

Year ended 31 December 2004

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 (2003: three) Directors, details of whose emoluments are set out in note 5 above. The details of the emoluments of the remaining two (2003: two) non-director, highest paid employees are as follows:

	2004 HK\$'000	2003 HK\$'000
Basic salaries, allowances and benefits in kind	1,474	1,474
Discretionary bonuses	–	75
Retirement benefit scheme contributions	24	24
	<u>1,498</u>	<u>1,573</u>

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

	Number of employees	
	2004	2003
Nil to HK\$1,000,000	<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 of the Financial Statements

Year ended 31 December 2004

7. RETIREMENT BENEFIT SCHEMES

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 consolidated 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.

In addition to the participation in the MPF Scheme, the Group is required to contribute to a defined contribution retirement scheme for its employees in the People’s Republic of China (“PRC”) based on the applicable basis and rates with the relevant government regulations.

The only obligation of the Group with respect of the retirement benefit schemes is to make the required contributions under the respective schemes.

The total cost charged to the consolidated income statement of approximately HK\$493,000 (2003: HK\$460,000) represents contributions payable to the retirement benefit schemes in Hong Kong and the PRC by the Group for the year ended 31 December 2004 at rates specified in the rules of the relevant schemes. At 31 December 2004, contributions due in respect of the current reporting year had not been paid over the relevant schemes was approximately HK\$75,000 (2003: HK\$76,000).

8. FINANCE COSTS

	2004 HK\$’000	2003 HK\$’000
Interest on loan from a minority equity holder of a subsidiary	54	–
Finance lease charges	–	44
Bank overdraft interest	3	–
	<u>57</u>	<u>44</u>



Notes of the Financial Statements

Year ended 31 December 2004

9. TAXATION

The taxation credit comprises:

	2004 HK\$'000	2003 HK\$'000
Deferred tax – Attributable to a change in tax rate (<i>note 19</i>)	<u>–</u>	<u>204</u>

No provision for Hong Kong and overseas profits tax has been made as the Group has no assessable profits for the year (2003: Nil).

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

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

The taxation credit can be reconciled to the loss before taxation as reported in the consolidated income statement as follows:

	2004 HK\$'000	2003 HK\$'000
Loss before taxation	<u>(9,773)</u>	<u>(9,104)</u>
Tax at the applicable tax rate of 17.5%	(1,710)	(1,593)
Tax effect of expenses that are not deductible in determining taxable profit	290	114
Tax effect of income that are not assessable in determining taxable profit	–	(1)
Tax effect of net deferred tax assets not recognised	1,420	1,849
Increase in the opening net deferred tax assets resulting from an increase in the tax rate	<u>–</u>	<u>(573)</u>
Taxation credit per consolidated income statement	<u>–</u>	<u>(204)</u>



Notes of the Financial Statements

Year ended 31 December 2004

10. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The Group's net loss attributable to shareholders of approximately HK\$8,637,000 (2003: HK\$8,900,000) included a loss of approximately HK\$8,372,000 (2003: HK\$29,305,000) which has been dealt with in the financial statements of the Company.

11. DIVIDEND

No dividends have been paid or declared by the Company during the year (2003: Nil).

12. LOSS PER SHARE

Basic loss per share is calculated based on the Group's net loss attributable to shareholders for the year of approximately HK\$8,637,000 (2003: HK\$8,900,000) and the weighted average number of 320,000,000 shares for the years ended 31 December 2004 and 2003.

No diluted loss per share figures have been presented as the Company did not have any dilutive potential shares for the years ended 31 December 2004 and 2003.



Notes of the Financial Statements

Year ended 31 December 2004

13. FILM RIGHTS

	Group	
	HK\$'000	
Cost		
At 1 January 2004		134,956
Additions		30,320
Write off		(87,264)
		<u>78,012</u>
At 31 December 2004		<u>78,012</u>
Accumulated amortisation		
At 1 January 2004		122,826
Charge for the year		30,230
Write off		(87,264)
		<u>65,792</u>
At 31 December 2004		<u>65,792</u>
Impairment losses		
At 1 January 2004		1,210
Recognise for the year		3,688
		<u>4,898</u>
At 31 December 2004		<u>4,898</u>
Net book value		
At 31 December 2004		<u><u>7,322</u></u>
At 31 December 2003		<u><u>10,920</u></u>
		Group
	2004	2003
	HK\$'000	HK\$'000
Analysis of film rights		
Current portion	7,322	10,268
Non-current portion	<u>–</u>	<u>652</u>
	<u><u>7,322</u></u>	<u><u>10,920</u></u>



Notes of the Financial Statements

Year ended 31 December 2004

14. FIXED ASSETS

	Leasehold improvements HK\$'000	Computers HK\$'000	Group Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost					
At 1 January 2004	3,732	3,259	2,438	644	10,073
Additions	5	113	708	–	826
At 31 December 2004	3,737	3,372	3,146	644	10,899
Accumulated depreciation					
At 1 January 2004	3,441	2,706	2,222	616	8,985
Charge for the year	288	280	224	28	820
At 31 December 2004	3,729	2,986	2,446	644	9,805
Impairment losses					
At 1 January 2004 and 31 December 2004	–	200	–	–	200
Net book value					
At 31 December 2004	8	186	700	–	894
At 31 December 2003	291	353	216	28	888



Notes of the Financial Statements

Year ended 31 December 2004

15. INTERESTS IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted investments, at cost	42,569	42,569
Due from subsidiaries	28,488	39,052
Due to subsidiaries	(1,263)	–
	<u>69,794</u>	<u>81,621</u>
Impairment losses	(35,184)	(27,610)
	<u><u>34,610</u></u>	<u><u>54,011</u></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/ registration and operation	Issued and fully paid-up share capital/ registered 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



Notes of the Financial Statements

Year ended 31 December 2004

15. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operation	Issued and fully paid-up share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
			Direct	Indirect	
Era Communications Limited	Hong Kong	Ordinary HK\$50,000	–	100%	Investment holding
Era Digital Media Limited	Hong Kong	Ordinary HK\$10,000	–	100%	Game distribution and operation of entertainment related portals
Red River Agents Limited	Hong Kong	Ordinary HK\$2	–	100%	Advertising agent
北京年恩長影文化傳播有限公司 (“年恩”) (Note)	PRC	Registered capital RMB2,155,800	–	57%	Film rights agent

Note: 年恩 is a sino-foreign equity joint venture enterprise with an operating period of 20 years commencing from 2 April 2004. The financial statements of 年恩 are not audited by RSM Nelson Wheeler and reflect net assets and turnover constituting approximately 2% and 1% respectively of the related consolidated totals.



Notes of the Financial Statements

Year ended 31 December 2004

16. INTERESTS IN ASSOCIATES

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	—	156

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%	Deregistered in 2004

17. INVESTMENT SECURITIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Unlisted investments, at cost	—	—
Loan to an investee company	—	254
	—	254
Impairment losses	—	(254)
	—	—

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Year ended 31 December 2004

17. 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%	Dissolved in 2004

18. CLUB MEMBERSHIP

	2004 HK\$'000	Group 2003 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.

19. DEFERRED TAX ASSETS

	2004 HK\$'000	Group 2003 HK\$'000
At 1 January	2,500	2,296
Credit to consolidated income statement (<i>note 9</i>)	–	204
Impairment losses charged to consolidated income statement (<i>note 4</i>)	<u>(1,185)</u>	<u>–</u>
At 31 December	<u>1,315</u>	<u>2,500</u>



Notes of the Financial Statements

Year ended 31 December 2004

19. 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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Accelerated depreciation allowances	(13)	(33)	183	225
Tax losses	<u>1,328</u>	<u>2,533</u>	<u>8,092</u>	<u>5,445</u>
	<u><u>1,315</u></u>	<u><u>2,500</u></u>	<u><u>8,275</u></u>	<u><u>5,670</u></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 unrecognised tax losses may be carried forward indefinitely.

20. INVENTORIES

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

As at 31 December 2004 the carrying amount of inventories that are carried at net realisable value amounted to approximately HK\$1.3 million (2003: HK\$2.2 million)



Notes of the Financial Statements

Year ended 31 December 2004

21. TRADE AND OTHER RECEIVABLES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Trade receivables	23,477	27,422
Other receivables	1,811	1,321
Due from a related party	794	1,084
Due from an associate	3	3
	<u>26,085</u>	<u>29,830</u>

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Current – 30 days	8,975	10,294
31 – 60 days	7,272	6,619
61 – 90 days	3,166	7,769
91 – 180 days	2,979	2,065
181 – 365 days	375	342
Over 1 year	710	333
	<u>23,477</u>	<u>27,422</u>

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



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Year ended 31 December 2004

22. PLEDGED BANK DEPOSITS/BANKING FACILITIES

The amounts represent time deposits pledged to banks in respect of banking facilities granted to the Group.

As at 31 December 2004 the Group had banking facilities of approximately HK\$3 million which were secured by the Group's bank deposits and corporate guarantees executed by the Company and certain subsidiaries of the Company.

23. BANK AND CASH BALANCES

Included in the bank and cash balances of the Group is an amount of approximately HK\$0.7 million as at 31 December 2004 (2003: Nil) denominated in Renminbi ("RMB"). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

24. TRADE AND OTHER PAYABLES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Trade payables	11,095	13,521	–	–
Film rights payables	7,111	10,519	–	–
Other payables	9,720	6,432	539	736
Receipts in advance	49	44	–	–
Due to an associate	–	4	–	–
Due to related parties	122	59	–	–
Due to a minority equity holder of a subsidiary	118	–	–	–
	<u>28,215</u>	<u>30,579</u>	<u>539</u>	<u>736</u>



Notes of the Financial Statements

Year ended 31 December 2004

24. TRADE AND OTHER PAYABLES (continued)

The aged analysis of trade payables is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Current – 30 days	2,465	3,289
31 – 60 days	2,283	3,467
61 – 90 days	2,697	3,067
91 – 180 days	1,526	1,313
181 – 365 days	548	812
Over 1 year	1,576	1,573
	<u>11,095</u>	<u>13,521</u>

The aged analysis of film rights payables is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Current – 30 days	43	1,159
31 – 60 days	2	1,370
61 – 90 days	3	1,072
91 – 180 days	52	1,255
181 – 365 days	29	1,952
Over 1 year	6,982	3,711
	<u>7,111</u>	<u>10,519</u>

Included in trade payables of the Group as at 31 December 2004 are trading balances due to Era Communications Co., Ltd. (“ERA Taiwan”) of approximately HK\$2,174,000 (2003: HK\$1,602,000).

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



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Year ended 31 December 2004

25. SHARE CAPITAL

	Company	
	2004	2003
	HK\$'000	HK\$'000
Authorised:		
10,000,000,000 ordinary shares of HK\$0.01 each	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:		
320,000,000 ordinary shares of HK\$0.01 each	<u>3,200</u>	<u>3,200</u>

26. SHARE OPTION 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 of the Company's shares on GEM on 28 June 2001.

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.



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Year ended 31 December 2004

26. SHARE OPTION SCHEME (continued)

Pre-IPO Share Option Scheme (continued)

Movements in share options are as follows:

	Number of share options	
	2004	2003
At 1 January	6,630,000	7,340,000
Lapsed	<u>(110,000)</u>	<u>(710,000)</u>
At 31 December	<u><u>6,520,000</u></u>	<u><u>6,630,000</u></u>

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 daily quotation sheet of the Stock Exchange of Hong Kong Limited (the "Exchange") 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, 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 10 years commencing on the adoption on 5 June 2001. Further details of the Share Option Scheme are set out in the prospectus of the Company dated 12 June 2001.

No share options under the Share Option Scheme were granted up to 31 December 2004.



Notes of the Financial Statements

Year ended 31 December 2004

27. CONTINGENT LIABILITIES

(a) **Group**

As at 31 December 2004 the Group had contingent liabilities in respect of long service payments of approximately HK\$1,937,000 (2003: HK\$1,943,000). No provision has been made for this amount as at 31 December 2004.

(b) **Company**

Unlimited corporate guarantee was given by the Company to a bank in respect of banking facilities granted to certain subsidiaries of the Company.

28. COMMITMENTS

As at 31 December 2004 the Group had the following commitments:

(a) **Operating lease commitments**

	Group	
	2004	2003
	HK\$'000	HK\$'000
Total future minimum lease payments under non-cancellable operating leases in respect of office premises are as follows:		
Within one year	<u>1,546</u>	<u>85</u>

(b) **Other commitments**

	Group	
	2004	2003
	HK\$'000	HK\$'000
Unpaid purchase costs due to suppliers	1,764	6,766
Unpaid film rights due to licensors	<u>2,501</u>	<u>2,083</u>

The Company did not have any significant commitments as at 31 December 2004.



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Year ended 31 December 2004

29. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS

Apart from the transactions with related parties disclosed elsewhere in the financial statements, the Group had the following transactions with its related parties during the year:

	2004	Group
	HK\$'000	2003
		HK\$'000
Consultancy fee paid to a substantial shareholder, Mr. Chiu Fu Sheng (<i>note 1</i>)	480	480
Distribution income received from Era International (HK) Limited ("EIHK")	15	21
Purchases from ERA Taiwan (<i>note 2</i>)	<u>3,655</u>	<u>3,180</u>

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



Notes of the Financial Statements

Year ended 31 December 2004

29. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS (*continued*)

Notes:

1. Pursuant to a consultancy agreement entered into between Mr. Chiu Fu Sheng and the Group dated 11 May 2003, 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 until terminated by either party giving not less than three months' notice in writing.
2. On 26 November 2002, the Group, ERA Taiwan and DigiCell Entertainment Co., Ltd. ("DigiCell") had entered into a distribution agreement (the "Distribution Agreement"). As Mr. Chiu Fu Sheng and his associates are substantial shareholders in the Company, ERA Taiwan and DigiCell, the transactions contemplated under the Distribution Agreement constitute non-exempt continuing connected transactions of the Company under the GEM Listing Rules. Pursuant to the Distribution Agreement, 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 in Hong Kong and Macau. The Group paid ERA Taiwan a deposit of approximately HK\$3,400,000 refundable upon the termination of the Distribution Agreement or in accordance with the terms thereof. Under the terms of the Distribution Agreement, the purchase price of the online game products for the Group is 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 is 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.



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Year ended 31 December 2004

30. SEGMENT INFORMATION

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

(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	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE										
External revenue	68,844	85,049	2,857	12,205	12,993	9,256	-	-	84,694	106,510
Inter-segment revenue *	-	-	-	-	1,250	2,810	(1,250)	(2,810)	-	-
Total revenue	<u>68,844</u>	<u>85,049</u>	<u>2,857</u>	<u>12,205</u>	<u>14,243</u>	<u>12,066</u>	<u>(1,250)</u>	<u>(2,810)</u>	<u>84,694</u>	<u>106,510</u>
RESULT										
Segment result	<u>1,402</u>	<u>(2,305)</u>	<u>(4,502)</u>	<u>(1,220)</u>	<u>(371)</u>	<u>(141)</u>	<u>-</u>	<u>-</u>	<u>(3,471)</u>	<u>(3,666)</u>
Unallocated corporate expenses									<u>(6,156)</u>	<u>(5,415)</u>
Operating loss excluding interest income									<u>(9,627)</u>	<u>(9,081)</u>
Interest expenses									<u>(57)</u>	<u>(44)</u>
Interest income									<u>67</u>	<u>21</u>
Share of loss of an associate									<u>(156)</u>	<u>-</u>
Loss before taxation									<u>(9,773)</u>	<u>(9,104)</u>
Taxation									<u>-</u>	<u>204</u>
Loss after taxation									<u>(9,773)</u>	<u>(8,900)</u>
Minority interest									<u>1,136</u>	<u>-</u>
Net loss for the year									<u>(8,637)</u>	<u>(8,900)</u>

* Inter-segment revenue is charged on basis mutually agreed between the segments.



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30. SEGMENT 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	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS										
Segment assets	<u>41,533</u>	<u>59,802</u>	<u>4,873</u>	<u>3,230</u>	<u>13,913</u>	<u>16,632</u>	<u>-</u>	<u>-</u>	<u>60,319</u>	<u>79,664</u>
Interests in associates									-	156
Unallocated corporate assets									<u>14,707</u>	<u>6,189</u>
Consolidated total assets									<u>75,026</u>	<u>86,009</u>
LIABILITIES										
Segment liabilities	<u>21,968</u>	<u>25,799</u>	<u>2,759</u>	<u>2,344</u>	<u>2,932</u>	<u>3,121</u>	<u>-</u>	<u>(1,450)</u>	<u>27,659</u>	<u>29,814</u>
Unallocated corporate liabilities									<u>606</u>	<u>802</u>
Consolidated total liabilities									<u>28,265</u>	<u>30,616</u>
OTHER INFORMATION										
Capital expenditure	28,791	44,075	2,345	913	10	22	-	-	31,146	45,010
Depreciation and amortisation	29,722	45,515	1,083	3,754	245	596	-	-	31,050	49,865
Impairment losses	2,331	788	1,357	212	-	-	-	-	3,688	1,000
Provision for inventories	800	1,105	-	-	-	1,000	-	-	800	2,105
Non-cash (income)/ expenses other than depreciation, amortisation, impairment losses and provision for inventories	<u>(26)</u>	<u>1,347</u>	<u>-</u>	<u>-</u>	<u>131</u>	<u>69</u>	<u>-</u>	<u>-</u>	<u>105</u>	<u>1,416</u>

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



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Year ended 31 December 2004

31. COMPARATIVE FIGURES

For the consolidated income statement for the year ended 31 December 2003, administrative expenses of approximately HK\$6,752,000 have been reclassified to selling and distribution costs to conform to the current year's presentation.

32. ULTIMATE HOLDING COMPANY

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

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of Directors on 17 March 2005.