



Era Information & Entertainment Limited

年代資訊影視有限公司

(incorporated in the Cayman Islands with limited liability)



**2005**

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***Annual Report***

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

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

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

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



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## Corporate Information

### Executive Director

Leung Chung Chu, Andrew (*Chairman*)  
Yau 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

Unit 1008  
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

### Remuneration committee

Chan Kin Wo (*Chairman*)  
Yow Cecil  
Yim Chun Leung  
Leung Chung Chu, Andrew  
Ng Wai Lun

### 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 the Cayman Islands

Bank of Bermuda (Cayman) Limited  
P.O. Box 513 GT  
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



## 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 2005.

The year ended 31 December 2005 was tough for the Group. The films and entertainment industry is one of those industries not yet benefited by the recovery of the Hong Kong economy. While the products distributed by the Group are not targeted by the independent travellers from the People's Republic of China ("PRC"), high rental cost in the prime shopping districts has adversely affected the distribution network of the Group. In addition, problems of illegal internet download as well as piracy are resistant factors to the growth of the Group's turnover.

During the year under review, the Group's games distribution business was affected by delays in the launching of new online games which were expected to be released by licensor and game developers. In addition to negotiate with licensor to reschedule the release of new online games, the Group continues to source for new games aiming to broaden the range of online games products.

The Group's PRC subsidiary, 北京年恩長影文化傳播有限公司("年恩"), has arranged three film titles for theatrical release in the PRC during the year ended 31 December 2005. The box office results of these three film titles are satisfactory which reflects that the business direction of 年恩 is correct, thus we expect it to arrange more film titles for theatrical release in the PRC in the coming year of 2006 to enhance the income source of the Group.

On development side, we are planning to diversify our business into other entertainment related industries as well as other markets, such as to enhance the income source of the Group. Various opportunities are now under consideration but no formal agreement or intent has been agreed.

On behalf of the Board

**Leung Chung Chu, Andrew**

*Chairman*

Hong Kong, 22 March 2006

## Management Discussion and Analysis

### FINANCIAL PERFORMANCE

For the year ended 31 December 2005, the Group recorded a turnover of approximately HK\$79.4 million (2004: approximately HK\$84.3 million), which represents a decrease of approximately 5.8%. Loss attributable to shareholders amounted to approximately HK\$6.9 million as compared to approximately HK\$8.6 million recorded in the previous year.

Turnover for the sales of home video products has slightly decreased by approximately 4.2% to approximately HK\$65.9 million. During the year under review, 年恩 started to step into its growing stage which was a main reason for an increase in the Group's turnover for theatrical release arrangement and film rights sub-licensing business by approximately 1.2 times when compared with that of the year ended 31 December 2004. Due to delays in launching of new online games by the Group's licensor during the year ended 31 December 2005, turnover for games distribution business has decreased by approximately 39.8% to approximately HK\$7.8 million.

### BUSINESS REVIEW

While facing unfavourable market environment of the home video industry, the Group released a number of new home video titles during the year ended 31 December 2005, including some blockbusters and award winners such as "Kung Fu Hustle", "Shark Tale", "Ray", "Bridget Jones: The Edge of Reason", "Hitch" and "Madagascar". Despite the release of various blockbuster titles by the Group during the year under review, the sales of home video products business of the Group was adversely affected by the problems of high rental cost that leads to recession of the Group's distribution network, as well as illegal internet download and piracy problems.

年恩's performance for the first half of the year ended 31 December 2005 was affected by certain unexpected unfavourable events, such as anti-Japanese sentiment during the censorship period and pending of film rights trading due to potential licensor's group restructuring. In the third quarter of the year 2005, 年恩 has made a theatrical release arrangement for a film title, namely "March of The Penguins" (Oscar winner for Best Documentary), in the PRC following by another one in the fourth quarter. Box office results of both of these two film titles were satisfactory. This shows that 年恩 has commenced to enjoy the fruitful results from the establishment of its business and theatrical release networks in the PRC.

Despite its licensor's delay in the release of new online games, the Group has released a new online game title namely "FreeStyle" by the end of 2005, which helps the Group to enhance its game distribution business.

## Management Discussion and Analysis

### PROSPECTS

Even though the Group's distribution network was adversely affected by high rental cost in the prime shopping districts, some major chain stores customers of the Group started to establish their new stores in some second tier shopping districts by the end of 2005. The management of the Group expects that more customers' stores will be established through a process of relocating to second tier shopping districts, which will enhance the Group's distribution network in the long run. In addition, due to the government's anti-piracy policies and legal actions against illegal internet downloads, piracy problems started to improve by the end of 2005, and the Group looks forward to see a thorough improvement of such problems which will help to enhance the revenue of the Group. On the other hand, new home video titles recently released by the Group in 2006 included "Doom" and "Legend of Zorro, The", etc. Other blockbuster home video titles expected to be released by the Group in the year of 2006 include "King Kong", "Memoirs of a Geisha" and "Da Vinci Code, The", etc.

After the success in its theatrical release arrangements by the second half of the year 2005, 年恩 has arranged theatrical release of another film title in the PRC during Chinese New Year in early 2006 with good results, while other film titles are now in the course of preparation. In view of the huge and lucrative PRC film market as well as the encouraging box office results attained by 年恩, the Group will acquire more film rights for theatrical release arrangements in the PRC and expects a better return in this business in the coming future.

Following the delays in the release of online games during the year of 2005, the Group is now in the process of negotiation with the licensor to reschedule the release of the new online games. In addition, the Group started to source for more potential and good quality online games as well as to negotiate with potential licensors and game developers, thus an improvement in the income source of the games distribution business is expected.

### LIQUIDITY AND FINANCIAL RESOURCES

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

As at 31 December 2005, the Group had net current assets of approximately HK\$37.9 million, of which approximately HK\$2.1 million and HK\$17.3 million (2004: approximately HK\$2.0 million and HK\$19.1 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.



## Management Discussion and Analysis

### 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 2005, the Group's net assets were financed by internal resources through share capital and reserves. Total equity attributable to shareholders was approximately HK\$39.9 million as at 31 December 2005, representing a decrease of approximately 14.7% over last year.

### CHARGES ON THE GROUP'S ASSETS

As at 31 December 2005, the Group's time deposits of approximately HK\$2.1 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 2005, the Group did not have any borrowings.

### SEGMENTAL INFORMATION

Details of the Group's segmental information are set out on pages 74 and 75 of the financial statements in this report.

### CAPITAL COMMITMENTS

As at 31 December 2005, the Group had commitments of unpaid film rights of approximately HK\$3.7 million due to licensors and commitments of unpaid purchase costs of approximately HK\$3.6 million due to suppliers.

### CONTINGENT LIABILITIES

As at 31 December 2005, the Group had contingent liabilities in respect of long service payments of approximately HK\$1.9 million.



## **Management Discussion and Analysis**

### **EMPLOYEE INFORMATION**

As at 31 December 2005, the Group had a total of 45 employees. The total staff costs, including directors' emoluments, amounted to approximately HK\$13.7 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.

The emoluments of the Directors and senior management of the Company should be determined in accordance with the recommendations from the remuneration committee of the Company. The remuneration committee of the Company considers factors including salaries paid by comparable companies, time commitment and responsibilities of the relevant employee, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

## Directors Profiles

### DIRECTORS

#### *Executive Directors*

Mr. LEUNG Chung Chu, Andrew, aged 49, is the Chairman and compliance officer of the Company. Mr. Leung is a co-founder of the Group. He is also an executive director of Era Information & Entertainment (BVI) Limited, Era Digital Media Limited, Era Home Entertainment Limited, Era Films (HK) Limited, Red River Agents Limited, Era Communications Limited and 北京年恩長影文化傳播有限公司, subsidiaries of the Company. 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. Leung is also a member of the remuneration committee, compliance officer and authorised representative of the Company.

Mr. YAU Kar Man, aged 47, is also an executive director of Era Digital Media Limited, Era Home Entertainment Limited, Era Films (HK) Limited, Red River Agents Limited and Era Communications Limited, subsidiaries of the Company. 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.

Mr. NG Wai Lun, aged 43, is also the company secretary and qualified accountant of the Company. He is also an executive director of 北京年恩長影文化傳播有限公司, subsidiary 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. Ng is also a member of the remuneration committee and authorised representative of the Company.

Mr. KEUNG Chi Wai, aged 40, 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 50, 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. Chan is also the chairman of the audit committee and remuneration committee of the Company.

Mr. YOW, Cecil, aged 52, 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. Yow is also a member of the audit committee and remuneration committee of the Company.

Mr. YIM Chun Leung, aged 43, 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. He has been appointed as an executive director of New Heritage Holdings Ltd., a company listed on the main board of the Exchange, since 23 December 2004. Mr. Yim was appointed as an independent non-executive Director in September 2004. Mr. Yim is also a member of the audit committee and remuneration committee of the Company.

## **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 2005.

### **PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 16 to the financial statements. There were no material changes in the nature of the Group's principal activities during the year.

The Group's turnover and contribution to operating result for the year is attributable to home video products distribution, theatrical and television rights distribution, film rights sub-licensing 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 2005 and the state of the affairs of the Company and the Group at that date are set out in the financial statements on pages 29 to 76.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2005.

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 15 to the financial statements.

### **SUBSIDIARIES**

Particulars of the Company's subsidiaries as at 31 December 2005 are set out in note 16 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 24 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 31 and 32.

### DISTRIBUTABLE RESERVES

At 31 December 2005, the Company's reserves available for cash distribution and/or distribution in specie amounted to approximately HK\$37 million. Under the Companies Law (Revised) of the Cayman Islands, the share premium of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the relevant law of the Cayman Islands, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders 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 51% of the total sales for the year and the sales attributable to the largest customer included therein amounted to approximately 19%.

The aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 88% of the total purchases for the year and the purchases attributable to the largest supplier included therein amounted to approximately 35%.

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 Directors 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)

#### *Independent non-executive directors*

Mr. Chan Kin Wo

Mr. Yow Cecil

Mr. Yim Chun Leung

In accordance with articles 87 (1) and (2) of the Company's articles of association and as resolved by the board of Directors, Mr. Yau Kar Man and Mr. Chan Kin Wo will retire by rotation and, being eligible, will offer themselves 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 and 10 of the annual report.

### DIRECTORS' EMOLUMENTS AND THE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and of the individuals with highest emoluments of the Group are set out in notes 7 and 8 to the financial statements respectively.

### RETIREMENT BENEFIT SCHEMES

Details of the retirement benefit schemes of the Group and the employer's costs charged to the income statement for the year are set out in note 9 to the financial statements.

## Directors' Report

### DIRECTORS' SERVICE CONTRACTS

Each of Mr. Leung Chung Chu, Andrew and Mr. Yau Kar Man has entered into a 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 and renewed for another two years commencing from 1 June 2005. 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' Report

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2005, 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*

<b>Name of Directors</b>	<b>Capacity</b>	<b>Number and class of shares</b>	<b>Approximate percentage of issued share capital</b>
Mr. Leung Chung Chu, Andrew	Beneficial owner	25,000,000 ordinary shares (long position)	7.81%
Mr. Ng Wai Lun	Beneficial owner	480,000 ordinary shares (long position)	0.15%
Mr. Keung Chi Wai	Beneficial owner	108,000 ordinary shares (long position)	0.03%

## Directors' Report

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(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. Ng Wai Lun	Beneficial owner	share options to subscribe for shares (300,000 ordinary shares) <i>(Note)</i>	0.09%
Mr. Keung Chi Wai	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 AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(continued)*

**(b) The associated corporations**

*Interests in associated corporations of the Company*

Name of Director	Name of associated corporation	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 2005, 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 2005, 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' Report

### DIRECTORS' INTERESTS IN CONTRACTS

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, AND OTHER PERSON'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2005, 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. Lien Tai 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. Lien Tai Sheng and his associates (as defined in the GEM Listing Rules), beneficially own approximately 81.05% of the issued share capital of ERA Taiwan.

Save as disclosed above, as at 31 December 2005, 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	Number of shares options Granted	Number of shares options		
			Outstanding as at 1 January 2005	Lapsed during the year under review	Outstanding as at 31 December 2005
<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
Mr. Ng Wai Lun	5 June 2001	300,000	300,000	–	300,000
Mr. Keung Chi Wai	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 ( <i>Note 1</i> )	5 June 2001	3,860,000	2,520,000	350,000	2,170,000
Consultant	5 June 2001	700,000	300,000	300,000	–
Madam Yau Sui Ha, Cecilia ( <i>Note 2</i> )	5 June 2001	600,000	600,000	600,000	–
Total			<u>6,520,000</u>	<u>1,250,000</u>	<u>5,270,000</u>

*Notes:*

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

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 2005.

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

## Directors' Report

### RELATED PARTY TRANSACTIONS

Significant related party transactions entered into by the Group during the year ended 31 December 2005 which do not constitute connected transactions under the GEM Listing Rules are set out in note 29 to the financial statements.

### 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 home video products distribution, theatrical and television rights distribution, 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 2005, 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 the GEM Listing Rules, the Company has established an audit committee (the "Audit 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 Audit Committee comprises three independent non-executive Directors, Mr. Chan Kin Wo, Mr. Yow Cecil and Mr. Yim Chun Leung. The Audit Committee met on a quarterly basis during the year under review. The Group's financial results for the year ended 31 December 2005 have been reviewed by the Audit Committee which is of the opinion that the preparation of such results complied with the applicable accounting standards, the GEM Listing Rules and legal requirements, and that adequate disclosures have been made.



## **Directors' Report**

### **CORPORATE GOVERNANCE**

A report on the principle corporate governance practices adopted by the Company is set out on pages 22 to 27 of this 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, 22 March 2006

## Corporate Governance Report

### CORPORATE GOVERNANCE PRACTICES

The Company has established a formal and transparent procedure to protect the interests of the shareholders of the Company. The Company applied the principles and complied with all the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the period under review, except that:-

Under the code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The chairman and chief executive officer of the Company are performed by the same individual, Mr. Leung Chung Chu, Andrew. The Directors will meet regularly to consider major matters affecting the operations of the Company. The Directors consider that this structure will not impair the balance of power and authority between the Directors and the management of the Company and believe that this structure will enable the Group to make and implement decisions promptly and efficiently. Therefore, the Directors are of the view that the roles of chairman and chief executive officer of the Company can be performed by the same individual.

Under the code provision B.1.1, a listed issuer should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. It was not until 28 December 2005 that the Company established a remuneration committee as required under the code provision B.1.1.

Under the code provision A.4.2, every director should be subject to retirement by rotation at least once every three years. The existing articles of association of the Company provide that no Director holding office as chairman and/or managing director shall be subject to retirement by rotation. Accordingly, as at the date of this report, Mr. Leung Chung Chu, Andrew, being the chairman of the Company, is not subject to retirement by rotation. In order to comply with the code provision A.4.2, amendments will be proposed at the forthcoming annual general meeting to specify that every Director shall be subject to retirement by rotation at least once every three years.

### DIRECTORS' SECURITIES TRANSACTIONS

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. Having made specific enquiry of all directors, the Company's directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the year ended 31 December 2005.



## Corporate Governance Report

### BOARD OF DIRECTORS

#### *Executive Directors*

Mr. Leung Chung Chu, Andrew (*Chairman*)

Mr. Yau Kar Man

Mr. Ng Wai Lun

Mr. Keung Chi Wai

#### *Independent non-executive Directors*

Mr. Chan Kin Wo

Mr. Yow Cecil

Mr. Yim Chun Leung

The board of the Directors held a full board meeting for each quarter during the year under review. Details of the attendance of the board of Directors are as follows:-

#### **Directors**

#### **Attendance**

#### *Executive Directors*

Mr. Leung Chung Chu, Andrew (*Chairman*)

4/4

Mr. Yau Kar Man

4/4

Mr. Ng Wai Lun

4/4

Mr. Keung Chi Wai

4/4

#### *Independent non-executive Directors*

Mr. Chan Kin Wo

4/4

Mr. Yow Cecil

4/4

Mr. Yim Chun Leung

4/4

## Corporate Governance Report

### BOARD OF DIRECTORS *(continued)*

Apart from the above regular board meetings of the year, the board of Directors will meet on other occasions when a board-level decision on a particular matter is required. The Directors receive details of agenda items for decision and minutes of committee meetings in advance of each board meeting. The board of Directors has reserved for its decision or consideration matters covering corporate strategy, annual and interim results, Directors' appointment, succession planning, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the board of Directors to the management include the preparation of annual and interim accounts for board approval before public reporting, execution of business strategies and initiatives adopted by the board of Directors, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

The Company appointed three independent non-executive Directors who have appropriate and sufficient experience and qualification pursuant to the GEM Listing Rules to carry out their duties so as to protect the interests of shareholders.

The board of Directors established audit committee and remuneration committee and their duties were discussed and approved in the board meeting.

### CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the chairman and chief executive officer of the Company are not separated and are performed by the same individual, Mr. Leung Chung Chu, Andrew of the Company. The Directors consider that this structure will not impair the balance of power and authority between the Directors and the management of the Company and believe that this structure will enable the Group to make and implement decisions promptly and efficiently.

### NON-EXECUTIVE DIRECTORS

Each of Mr. Chan Kin Wo and Mr. Yow Cecil has been appointed for a term of two years commencing from 1 June 2003 and renewed for another two years commencing from 1 June 2005. 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.

## Corporate Governance Report

### REMUNERATION OF DIRECTORS

A remuneration committee of the Company was established in December 2005. The role and function of the remuneration committee included the determination of the specific remuneration packages of all executive Directors and senior management of the Company, including benefits in kind, pension rights and compensation payments, such as any compensation payable for loss or termination of their office or appointment, and make recommendations to the board of the remuneration of non-executive Directors.

Members of the remuneration committee included:

Mr. Chan Kin Wo (*chairman*)  
Mr. Yow Cecil  
Mr. Yim Chun Leung  
Mr. Leung Chung Chu, Andrew  
Mr. Ng Wai Lun

The remuneration committee meeting has been held on 22 March 2006. Details of the attendance of the remuneration committee meetings are as follows:-

Members	Attendance
Mr. Chan Kin Wo ( <i>chairman</i> )	1/1
Mr. Yow Cecil	1/1
Mr. Yim Chun Leung	1/1
Mr. Leung Chung Chu, Andrew	1/1
Mr. Ng Wai Lun	1/1

The remuneration committee of the Company has considered and reviewed the existing terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors with reference to the factors including salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration. The remuneration committee of the Company considers that the existing terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors are fair and reasonable.

## Corporate Governance Report

### NOMINATION OF DIRECTORS

The board of Directors considers the past performance and qualification of the candidates for Directors, general market conditions and the Company's articles of association in selecting and recommending candidates for directorship during the year under review.

The board of Directors held a meeting for nomination of Directors on 22 March 2006. Details of the attendance of the meetings are as follows:–

<b>Directors</b>	<b>Attendance</b>
<i>Executive Directors</i>	
Mr. Leung Chung Chu, Andrew ( <i>Chairman</i> )	1/1
Mr. Yau Kar Man	1/1
Mr. Ng Wai Lun	1/1
Mr. Keung Chi Wai	1/1
<i>Independent non-executive Directors</i>	
Mr. Chan Kin Wo	1/1
Mr. Yow Cecil	1/1
Mr. Yim Chun Leung	1/1

During the meeting, the board of Directors considered and resolved that all the existing Directors shall be recommended to be retained by the Company. Further, in accordance with the Company's articles of association and as resolved by the board of Directors, Mr. Yau Kar Man and Mr. Chan Kin Wo will retire, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

### AUDITORS' REMUNERATION

The Company's external auditors are RSM Nelson Wheeler. The Audit Committee is responsible for considering the appointment of the external auditors and reviewing any non-audit functions performed by the external auditors, including whether such non-audit functions could lead to any potential material adverse effect on the Group. During the year under review, the Group has paid an aggregate of approximately HK\$236,000 to the external auditors for their non-audit services including taxation and other advisory services.

## Corporate Governance Report

### AUDIT COMMITTEE

As required by Rules 5.28 to 5.33 of the GEM Listing Rules, the Company has established an audit committee with written terms of reference which deal clearly with its authority and duties. Its principal duties are to review and supervise the Group's financial reporting process and internal control systems.

Members of the audit committee included:

Mr. Chan Kin Wo (*chairman*)

Mr. Yow Cecil

Mr. Yim Chun Leung

The audit committee held four meeting during the period under review. Details of the attendance of the audit committee meetings are as follows:–

<b>Members</b>	<b>Attendance</b>
Mr. Chan Kin Wo ( <i>Chairman</i> )	4/4
Mr. Yow Cecil	4/4
Mr. Yim Chun Leung	4/4

The Group's audited results for the year ended 31 December 2005 and the unaudited results for the financial statements published during the year ended 31 December 2005 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards, the GEM Listing Rules and legal requirements, and that adequate disclosures have been made.

The audit committee of the Company considered that the existing the proposed terms in relation to the appointment of the Group's external auditor are fair and reasonable.

### DIRECTORS' AND AUDITORS RESPONSIBILITIES FOR ACCOUNTS

The Directors' responsibilities for the accounts and the responsibilities of the external auditors to the shareholders are set out on page 28 of this report.

### INTERNAL CONTROL

The Company is conducting a review of its system of internal control to ensure the effective and adequate internal control system.



## 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 29 to 76 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 person 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 of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### **OPINION**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 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, 22 March 2006

## Consolidated Income Statement

Year ended 31 December 2005

	<i>Note</i>	<b>2005</b> HK\$'000	2004 HK\$'000
<b>Turnover</b>	5	<b>79,445</b>	84,344
Cost of sales		<u>(60,466)</u>	<u>(65,109)</u>
Gross profit		<b>18,979</b>	19,235
Other revenue	5	<b>109</b>	417
Selling and distribution costs		<b>(6,702)</b>	(8,064)
Administrative expenses		<b>(18,117)</b>	(19,858)
Other operating expenses		<u>(1,011)</u>	<u>(1,290)</u>
<b>Operating loss</b>	6	<b>(6,742)</b>	(9,560)
Finance costs	10	<b>(45)</b>	(57)
Share of loss of an associate		<u>–</u>	<u>(156)</u>
<b>Loss before taxation</b>		<b>(6,787)</b>	(9,773)
Taxation	11	<u>(87)</u>	<u>–</u>
<b>Loss for the year</b>		<u><b>(6,874)</b></u>	<u>(9,773)</u>
<b>Attributable to:</b>			
Equity holders of the Company	12	<b>(6,874)</b>	(8,637)
Minority interest		<u>–</u>	<u>(1,136)</u>
		<u><b>(6,874)</b></u>	<u>(9,773)</u>
		<b>HK cents</b>	HK cents
<b>Loss per share for loss attributable to equity holders of the Company</b>			
– basic	14	<u><b>(2.15)</b></u>	<u>(2.70)</u>

The notes on pages 36 to 76 form an integral part of these financial statements.



## Consolidated Balance Sheet

31 December 2005

	<i>Note</i>	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Fixed assets	15	<b>689</b>	894
Club membership	18	<b>650</b>	650
Deferred tax assets	19	<b>627</b>	1,315
		<b>1,966</b>	2,859
<b>Current assets</b>			
Inventories		<b>4,724</b>	6,197
Film rights	20	<b>8,056</b>	7,322
Trade and other receivables	21	<b>18,000</b>	26,085
Prepayments and deposits		<b>8,786</b>	11,416
Pledged bank deposits	22	<b>2,059</b>	2,011
Bank and cash balances	23	<b>17,310</b>	19,136
		<b>58,935</b>	72,167
<b>Total assets</b>		<b>60,901</b>	75,026
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital	24	<b>3,200</b>	3,200
Share premium		<b>65,991</b>	65,991
Exchange reserve		<b>16</b>	5
Accumulated losses		<b>(29,309)</b>	(22,435)
<b>Total equity</b>		<b>39,898</b>	46,761
<b>Current liabilities</b>			
Trade and other payables	25	<b>21,003</b>	28,215
Bank overdraft – secured	22	<b>–</b>	50
		<b>21,003</b>	28,265
<b>Total equity and liabilities</b>		<b>60,901</b>	75,026
<b>Net current assets</b>		<b>37,932</b>	43,902
<b>Total assets less current liabilities</b>		<b>39,898</b>	46,761

Approved by the Board of Directors on 22 March 2006

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

**Yau Kar Man**  
*Executive Director*

The notes on pages 36 to 76 form an integral part of these financial statements.



## Statement of Changes in Equity

Year ended 31 December 2005

### GROUP

	Attributable to equity holders of the Company					Minority interest HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000			
At 1 January 2004	3,200	65,991	–	(13,798)	–	55,393	
Injection of capital	–	–	–	–	1,136	1,136	
Loss for the year	–	–	–	(8,637)	(1,136)	(9,773)	
Exchange difference	–	–	5	–	–	5	
At 31 December 2004	3,200	65,991	5	(22,435)	–	46,761	
Loss for the year	–	–	–	(6,874)	–	(6,874)	
Exchange difference	–	–	11	–	–	11	
At 31 December 2005	<u>3,200</u>	<u>65,991</u>	<u>16</u>	<u>(29,309)</u>	<u>–</u>	<u>39,898</u>	
Represented by:							
Company and subsidiaries	3,200	65,991	16	(24,888)	–	44,319	
Associate	–	–	–	(4,421)	–	(4,421)	
At 31 December 2005	<u>3,200</u>	<u>65,991</u>	<u>16</u>	<u>(29,309)</u>	<u>–</u>	<u>39,898</u>	
Company and subsidiaries	3,200	65,991	5	(18,014)	–	51,182	
Associate	–	–	–	(4,421)	–	(4,421)	
At 31 December 2004	<u>3,200</u>	<u>65,991</u>	<u>5</u>	<u>(22,435)</u>	<u>–</u>	<u>46,761</u>	

The notes on pages 36 to 76 form an integral part of these financial statements.



## Statement of Changes in Equity

Year ended 31 December 2005

### COMPANY

	Share capital HK\$'000	Share premium HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2004	3,200	84,553	(32,360)	55,393
Loss for the year	—	—	(8,632)	(8,632)
At 31 December 2004	3,200	84,553	(40,992)	46,761
Loss for the year	—	—	(6,863)	(6,863)
At 31 December 2005	<u>3,200</u>	<u>84,553</u>	<u>(47,855)</u>	<u>39,898</u>

#### Notes:

- (a) The share premium account of the Group includes (i) the premium arising from the issue of shares; 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; 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 (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 36 to 76 form an integral part of these financial statements.

## Consolidated Cash Flow Statement

Year ended 31 December 2005

2005  
HK\$'000

2004  
HK\$'000

### CASH FLOWS FROM OPERATING ACTIVITIES

Operating loss	(6,742)	(9,560)
Adjustments for:		
Allowance for doubtful debts of trade receivables	534	131
Amortisation of film rights	35,123	30,230
Bad debts written off	8	32
Depreciation	277	820
Impairment losses	1,016	5,673
Reversal of allowance for doubtful debts of trade receivables	(124)	(58)
Reversal of impairment losses	(4,235)	(792)
Interest income	(91)	(67)
Operating profit before working capital changes	25,766	26,409
Decrease in inventories	2,956	2,310
Decrease in trade and other receivables	7,667	3,640
Decrease/(increase) in prepayments and deposits	2,761	(1,033)
Decrease in trade and other payables	(7,212)	(2,364)
Cash generated from operations	31,938	28,962
Interest expenses	(45)	(57)
Hong Kong profits tax refund	–	880
Net cash generated from operating activities	31,893	29,785

### CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of fixed assets	(61)	(826)
Purchases of film rights	(33,622)	(30,320)
(Increase)/decrease in pledged bank deposits	(48)	3,939
Interest income	91	67
Net cash used in investing activities	(33,640)	(27,140)

The notes on pages 36 to 76 form an integral part of these financial statements.



## Consolidated Cash Flow Statement

Year ended 31 December 2005

	2005 HK\$'000	2004 HK\$'000
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Injection of capital from a minority equity holder of a subsidiary	—	1,136
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,747)</b>	<b>3,781</b>
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	<b>19,086</b>	<b>15,300</b>
Effect of foreign exchange rate change	(29)	5
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	<b><u>17,310</u></b>	<b><u>19,086</u></b>
<b>ANALYSIS OF CASH AND CASH EQUIVALENTS</b>		
Bank and cash balances	17,310	19,136
Bank overdraft – secured	—	(50)
	<b><u>17,310</u></b>	<b><u>19,086</u></b>

The notes on pages 36 to 76 form an integral part of these financial statements.



**Balance Sheet**

31 December 2005

	Note	2005 HK\$'000	2004 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Interests in subsidiaries	16	34,072	34,610
<b>Current assets</b>			
Other receivables		–	4
Prepayments and deposits		142	142
Pledged bank deposits	22	2,059	2,011
Bank and cash balances		4,310	10,583
		<u>6,511</u>	<u>12,740</u>
<b>Total assets</b>		<b><u>40,583</u></b>	<b><u>47,350</u></b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital	24	3,200	3,200
Share premium		84,553	84,553
Accumulated losses		(47,855)	(40,992)
		<u>39,898</u>	<u>46,761</u>
<b>Total equity</b>		<b>39,898</b>	<b>46,761</b>
<b>Current liabilities</b>			
Other payables	25	685	539
Bank overdraft – secured	22	–	50
		<u>685</u>	<u>589</u>
<b>Total equity and liabilities</b>		<b><u>40,583</u></b>	<b><u>47,350</u></b>

Approved by the Board of Directors on 22 March 2006

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

**Yau Kar Man**  
*Executive Director*

The notes on pages 36 to 76 form an integral part of these financial statements.

## Notes of the Financial Statements

Year ended 31 December 2005

### 1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 26 May 2000 under the Companies Law (Revised) of the Cayman Islands. The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, Cayman Islands. Its principal place of business is at Unit 1008, 10th Floor, Trans Asia Centre, 18 Kin Hong Street, Kwai Chung, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 16 to the financial statements. There were no material changes in the nature of the principal activities of the Group during the year.

### 2. SUMMARY OF SIGNIFICANT PRINCIPAL ACCOUNTING POLICIES

#### Statement of compliance

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM Listing Rules") of The Stock Exchange of Hong Kong Limited (the "Exchange").

#### Significant accounting estimates and judgement

The preparation of the financial statements in conformity with HKFRSs requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates.

The critical accounting estimates and assumptions used and area involving a high degree of judgements are disclosed in note 4.

## Notes of the Financial Statements

Year ended 31 December 2005

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

#### Basis of preparation

The financial statements have been prepared in accordance with the historical cost convention except as disclosed in the accounting policies set out below.

#### *Effect of adopting new and revised HKFRSs*

In 2005, the Group adopted the following new and revised HKFRSs below, which are relevant to its operations and effective for accounting periods beginning on or after 1 January 2005. The 2004 comparatives have been amended as required in accordance with the relevant requirements.

HKAS 1	Presentation of financial statements
HKAS 2	Inventories
HKAS 7	Cash flow statements
HKAS 8	Accounting policies, changes in accounting estimates and errors
HKAS 10	Events after the balance sheet date
HKAS 12	Income taxes
HKAS 14	Segment reporting
HKAS 16	Property, plant and equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee benefits
HKAS 21	The effects of changes in foreign exchange rates
HKAS 23	Borrowing costs
HKAS 24	Related party disclosures
HKAS 27	Consolidated and separate financial statements
HKAS 28	Investments in associates
HKAS 32	Financial instruments: Disclosures and presentation
HKAS 33	Earnings per share
HKAS 36	Impairment of assets
HKAS 37	Provisions, contingent liabilities and contingent assets
HKAS 38	Intangible assets
HKAS 39	Financial instruments: Recognition and measurement
HKFRS 2	Share-based payments

## Notes of the Financial Statements

Year ended 31 December 2005

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

#### **Basis of preparation** *(continued)*

##### *Effect of adopting new and revised HKFRSs (continued)*

The adoption of new and revised HKASs 1, 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 21, 23, 24, 27, 28, 32, 33, 36, 37, 38, 39 and HKFRS 2 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interest, share of net after tax results of associated companies and other disclosures.
- HKASs 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 21, 23, 27, 28, 32, 33, 36, 37 and 39 had no material effect on the Group's policies.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The Group has reassessed the useful lives of its intangible assets in accordance with the provision of HKAS 38. No adjustment resulted from this reassessment.

HKFRS 2 requires the recognition of equity-settled share-based payments at fair value at the date of grant and the recognition of liabilities of cash-settled share-based payments at the current fair value at each balance sheet date. Prior to the adoption of HKFRS 2, the Group did not recognise the financial effect of share-based payments until such payments were settled.

In accordance with the transitional provisions of HKFRS 2, HKFRS 2 has been applied retrospectively to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005, and to liabilities for share-based transactions existing at 1 January 2005.

Pursuant to the Pre-IPO Share Option Scheme, 8,260,000 share options were granted on 5 June 2001 at an exercise price of HK\$1 per share. 6,520,000 and 5,270,000 share options under the Pre-IPO Share Option Scheme were outstanding at 31 December 2004 and 2005 respectively. No share options under the Share Option Scheme were granted up to 31 December 2005. Details of the share option schemes are set out in note 26 to the financial statements.



## Notes of the Financial Statements

Year ended 31 December 2005

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

#### Basis of preparation *(continued)*

##### *Effect of adopting new and revised HKFRSs (continued)*

HKFRS 2 did not apply to share options granted under the Pre-IPO Share Option Scheme and had no effect on the Group's income statement and equity for the year.

At the date of authorisation of these financial statements, the Group has not early applied the following HKFRSs that have been issued but are not yet effective. The directors of the Company (the "Directors") anticipate that the application of these HKFRSs will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures
HKAS 21 (Amendment)	Net investment in a foreign operation
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions
HKAS 39 (Amendment)	The fair value option
HKAS 39 and HKFRS 4 (Amendment)	Financial guarantee contracts
HKFRS 6	Exploration for and evaluation of mineral resources
HKFRS 7	Financial instruments: disclosures
HK(IFRIC) – Int 4	Determining whether an arrangement contains a lease
HK(IFRIC) – Int 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds
HK(IFRIC) – Int 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment
HK(IFRIC) – Int 7	Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economies

## Notes of the Financial Statements

Year ended 31 December 2005

### 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.

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

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

#### **Revenue recognition**

Revenue from the sales of home video products, personal computer (“PC”) games and online games is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the home video products, PC games and online games are delivered and the 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.

Advertising income is recognised over the period in which the advertisements are displayed.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Revenue from the provision of services is recognised when the services are rendered.

#### **Operating leases**

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

## Notes of the Financial Statements

Year ended 31 December 2005

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

#### Foreign currency translation

(i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary items such as equity instruments held at fair value through profit or loss are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) *Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (c) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

## Notes of the Financial Statements

Year ended 31 December 2005

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

#### 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.

(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*

The Group grants share options to certain Directors and employees of the Group. Share options are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of share option is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

## Notes of the Financial Statements

Year ended 31 December 2005

### 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 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.

#### **Borrowing costs**

Borrowing costs are charged to the income statement as incurred.

#### **Financial assets**

Financial assets include cash and financial instruments. Financial assets, other than hedging instruments, can be divided into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated and classification may be changed at the reporting date with the exception that the designation of financial assets at fair value through profit or loss is not revocable.

All financial assets are recognised on their trade date – the date on which the Group and the Company commits to purchase or sell the asset. Financial assets are initially recognised at fair value, plus directly attributable transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value.

## Notes of the Financial Statements

Year ended 31 December 2005

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

#### **Financial assets** *(continued)*

Derecognition of financial instruments occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each balance sheet date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

Other than loans and receivables, the Group does not designate any financial assets at fair value through profit and loss, held-to-maturity investment nor available for sale.

#### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

Loans and receivables include trade and other receivables as reflected in the balance sheet.

#### **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 12 months of the balance sheet date is reported as a current asset. The portion of film rights expected to be recouped in more than 12 months from the balance sheet date is reported as a non-current asset.

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

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

## Notes of the Financial Statements

Year ended 31 December 2005

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

#### **Fixed assets**

Fixed assets are stated at cost less accumulated depreciation and impairment losses, if any. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

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 income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

The useful lives of the assets are reviewed and adjusted, if necessary, at each balance sheet date.

#### **Subsidiaries**

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The Company's investments in subsidiaries are stated at cost less impairment losses, if any.

#### **Associate**

Associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in an associate is accounted for by the equity method of accounting and is initially recognised at cost. The Group's investment in an associate includes goodwill (net of any accumulated impairment loss) identified on acquisition.

## Notes of the Financial Statements

Year ended 31 December 2005

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

#### **Associate** *(continued)*

The Group's share of its associate's post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

#### **Club membership**

Club membership is stated at cost less impairment losses, if any. The carrying amount of individual club membership is reviewed at each balance sheet date to assess whether the fair value has declined below the carrying amount. When a decline other than temporary has occurred, the carrying amount of such club membership is reduced to its fair value. The amount of the reduction is recognised as an expense in the income statement.

#### **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 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.

#### **Trade receivables**

Trade receivables are initially recognised at fair value, which generally equal original invoice amounts, and subsequently measured at amortised cost using the effective interest method, less allowance for doubtful debts.

An allowance for doubtful debts of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is recognised in the income statement.



## Notes of the Financial Statements

Year ended 31 December 2005

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

#### **Impairment of assets**

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the year in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the year in which it arises.

#### **Financial liabilities**

The Group's financial liabilities include trade and other payables, film right payables and amounts due to related parties and a minority equity holder of a subsidiary.

Financial liabilities are recognised when the Group and the Company becomes a party to the contractual agreements of the instrument. All interest related charges is recognised as an expense in "finance cost" in the income statement.

#### **Trade payables**

Trade payables are initially measured at fair value, which is generally the consideration to be paid for goods and services received, and are subsequently measured at amortised cost, using the effective interest rate method.

## Notes of the Financial Statements

Year ended 31 December 2005

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

#### **Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present 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 the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

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. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities 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.

#### **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.

## Notes of the Financial Statements

Year ended 31 December 2005

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

#### 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.

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 entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

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

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

### 3. FINANCIAL RISK MANAGEMENT

#### (i) Financial risk factors

The Group's activities expose it to a variety of financial risks, including foreign exchange risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

#### *Foreign exchange risk*

The Group carries out its business mainly in Hong Kong and most of the transactions are denominated in Hong Kong dollars and United States dollars. The Group's assets and liabilities are mainly denominated in Hong Kong dollars. The Group had neither engaged in any derivative activities nor committed to any financial instruments to hedge its balance sheet exposures. In view of the stability of the exchange rate between Hong Kong dollars and United States dollars, the Directors consider the Group's foreign exchange risk to be minimal.

## Notes of the Financial Statements

Year ended 31 December 2005

### 3. FINANCIAL RISK MANAGEMENT *(continued)*

#### (i) Financial risk factors *(continued)*

##### *Credit risk*

The Group's credit risk is primarily attributable to trade and other receivables included in the balance sheet which represent the Group's maximum exposure to credit risk in relation to the Group's financial assets. No other financial assets carry a significant exposure to credit risk. The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

The Group performs ongoing credit evaluation of its customers' financial condition and requires no collateral from its customers. The allowance for doubtful debts is based upon a review of the expected collectibility of all trade and other receivables.

##### *Liquidity risk*

The Group manages its liquidity risk by maintaining sufficient cash mainly from internally generated cashflow.

#### (ii) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the balance sheet approximate their respective fair values.

## Notes of the Financial Statements

Year ended 31 December 2005

### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

**(i) Deferred tax assets**

The Group's management determines the deferred tax assets based on the enacted or substantially enacted tax rates and laws and best knowledge of profit projections of the Group for coming years during which the deferred tax assets are expected to be utilised. Management will revise the assumptions and profit projections by the balance sheet date.

**(ii) Net realisable value of inventories**

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of distributing and selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles or other changes in market condition. Management will reassess the estimations by the balance sheet date.

**(iii) Allowance for doubtful debts of receivables**

The Group's management determines the allowance for doubtful debts of receivables. This estimate is based on the credit history of its customers and the current market condition. It could change significantly as a result of changes in the financial position of the customers. Management will reassess the allowance at each balance sheet date.

**(iv) Impairment loss of film rights**

The Group evaluate whether film rights have suffered any impairment loss whenever events or changes in circumstances indicate that the carrying amount of the film rights may not be recoverable, in accordance with the relevant accounting policy set out above. The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require the use of estimates.



### Notes of the Financial Statements

Year ended 31 December 2005

#### 5. TURNOVER AND REVENUE

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

	2005 HK\$'000	2004 HK\$'000
Turnover		
Home video products distribution	65,933	68,814
Theatrical rights distribution and film rights sub-licensing	5,683	2,537
Games distribution ( <i>note</i> )	7,829	12,993
	<hr/>	<hr/>
	79,445	84,344
Other revenue		
Bank interest income	91	67
Distribution income	8	15
Facilities charges income	10	15
Marketing income	-	320
	109	417
	<hr/>	<hr/>
	<b>79,554</b>	<b>84,761</b>
	<hr/> <hr/>	<hr/> <hr/>

*Note:* Games distribution includes sales of PC games and online games of approximately HK\$7,623,000 (2004: HK\$12,872,000) and online advertising income of approximately HK\$206,000 (2004: HK\$121,000) for the year.

## Notes of the Financial Statements

Year ended 31 December 2005

### 6. OPERATING LOSS

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

	2005 HK\$'000	2004 HK\$'000
Allowance for doubtful debts of trade receivables (included in other operating expenses)	534	131
Amortisation of film rights (included in cost of sales)	35,123	30,230
Auditors' remuneration	497	410
Bad debts written off	8	32
Cost of inventories sold ( <i>note (i)</i> )	18,653	24,594
Depreciation	277	820
Impairment losses		
– Deferred tax assets (included in other operating expenses) ( <i>note 19</i> )	601	1,185
– Film rights (included in cost of sales)	415	3,688
– Inventories (included in cost of sales)	–	800
Operating lease rentals in respect of land and buildings	1,792	1,771
Reversal of allowance for doubtful debts of trade receivables (included in other operating expenses)	(124)	(58)
Reversal of impairment losses		
– Inventories (included in cost of sales) ( <i>note (ii)</i> )	(1,483)	(792)
– Film rights (included in cost of sales) ( <i>note (iii)</i> )	(2,752)	–
Staff costs including directors' emoluments		
Salaries and other costs	13,128	13,747
Retirement benefit scheme contributions	600	493
	13,728	14,240

Notes:

- (i) Cost of inventories sold includes impairment loss and reversal of impairment loss on inventories of approximately HK\$Nil (2004: HK\$800,000) and HK\$1,483,000 (2004: HK\$792,000) respectively which are included in the respective amounts disclosed separately above for the year.
- (ii) The Group reversed the impairment loss on inventories as a result of sales and disposal of certain video products.
- (iii) The Group reversed the impairment loss on film rights as a result of sales of the relevant video products and theatrical rights distribution.

## Notes of the Financial Statements

Year ended 31 December 2005

### 7. DIRECTORS' EMOLUMENTS

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

2005

	Directors' fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Retirement benefit scheme contributions HK\$'000	Total HK\$'000
Executive directors					
Leung Chung Chu, Andrew	–	1,900	–	12	1,912
Yau Kar Man	–	545	–	12	557
Ng Wai Lun	–	875	–	10	885
Keung Chi Wai	–	509	40	10	559
Independent non-executive directors					
Chan Kin Wo	80	–	–	–	80
Yow Cecil	80	–	–	–	80
Yim Chun Leung	112	–	–	–	112
	<u>272</u>	<u>3,829</u>	<u>40</u>	<u>44</u>	<u>4,185</u>



## Notes of the Financial Statements

Year ended 31 December 2005

### 7. DIRECTORS' EMOLUMENTS (continued)

2004

	Directors' fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Retirement benefit scheme contributions HK\$'000	Total HK\$'000
Executive directors					
Leung Chung Chu, Andrew	–	1,820	–	12	1,832
Yau Kar Man	–	527	–	12	539
Yau Sui Ha	–	882	–	11	893
Non-executive director					
Chiu Fu Sheng	–	–	–	–	–
Independent non-executive directors					
Chan Kin Wo	80	–	–	–	80
Yow Cecil	80	–	–	–	80
Yim Chun Leung	28	–	–	–	28
	<u>188</u>	<u>3,229</u>	<u>–</u>	<u>35</u>	<u>3,452</u>

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.

At 31 December 2005, the amounts payable to the Directors and other key management personnel of the Group was approximately HK\$334,000 (2004: HK\$307,000).

## Notes of the Financial Statements

Year ended 31 December 2005

### 8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the six individuals with the highest emoluments during the year, four (2004: three) are Directors whose emoluments are disclosed in note 7 above. The aggregate of the emoluments for the other two (2004: two) individuals are as follows:

	2005 HK\$'000	2004 HK\$'000
Basic salaries, allowances and benefits in kind	677	1,474
Discretionary bonuses	–	–
Retirement benefit scheme contributions	24	24
	<u>701</u>	<u>1,498</u>

The emoluments of the two (2004: two) individuals with the highest emoluments are within the following band:

	Number of employees	
	2005	2004
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 individuals with highest emoluments as an inducement to join the Group or as compensation for loss of office.

## Notes of the Financial Statements

Year ended 31 December 2005

### 9. 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 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 (the “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 income statement of approximately HK\$600,000 (2004: HK\$493,000) represents contributions payable to the retirement benefit schemes in Hong Kong and the PRC by the Group for the year ended 31 December 2005 at rates specified in the rules of the relevant schemes. At 31 December 2005, contributions due in respect of the current reporting year had not been paid over the relevant schemes was approximately HK\$79,000 (2004: HK\$75,000).

### 10. FINANCE COSTS

	2005 HK\$’000	2004 HK\$’000
Interest on loan from a minority equity holder of a subsidiary	44	54
Bank overdraft interest	1	3
	<u>45</u>	<u>57</u>

## Notes of the Financial Statements

Year ended 31 December 2005

### 11. TAXATION

The taxation charge represents:

	2005 HK\$'000	2004 HK\$'000
Deferred taxation ( <i>note 19</i> )	<u>87</u>	<u>–</u>

No provision for Hong Kong and overseas profits tax has been made as the Group has no assessable profit for the year (2004: 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 associate as it did not generate any assessable profit for the year (2004: Nil).

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

	2005 HK\$'000	2004 HK\$'000
Loss before taxation	<u>(6,787)</u>	<u>(9,773)</u>
Tax at the applicable tax rate of 17.5%	(1,188)	(1,710)
Tax effect of expenses that are not deductible in determining taxable profit	221	290
Tax effect of income that are not assessable in determining taxable profit	(18)	–
Tax effect of net deferred tax assets not recognised	1,185	1,420
Tax effect of utilisation of tax losses, not recognised previously	<u>(113)</u>	<u>–</u>
Taxation charge per consolidated income statement	<u>87</u>	<u>–</u>

**Notes of the Financial Statements**

Year ended 31 December 2005

**12. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY**

The Group's loss attributable to equity holders of the Company of approximately HK\$6,874,000 (2004: HK\$8,637,000) included a loss of approximately HK\$6,863,000 (2004: HK\$8,632,000) which has been dealt with in the financial statements of the Company.

**13. DIVIDEND**

No dividends have been paid or declared by the Company during the year (2004: Nil).

**14. LOSS PER SHARE**

Basic loss per share is calculated based on the Group's loss attributable to equity holder of the Company for the year of approximately HK\$6,874,000 (2004: HK\$8,637,000) and the weighted average number of 320,000,000 shares for the years ended 31 December 2005 and 2004.

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 2005 and 2004.

## Notes of the Financial Statements

Year ended 31 December 2005

### 15. FIXED ASSETS

	Leasehold improvements HK\$'000	Computers HK\$'000	Group Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>Cost</b>					
At 1 January 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
Adjustment on exchange difference	–	2	10	–	12
Additions	–	58	3	–	61
At 31 December 2005	3,737	3,432	3,159	644	10,972
<b>Accumulated depreciation</b>					
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
Adjustment on exchange difference	–	–	1	–	1
Charge for the year	5	87	185	–	277
At 31 December 2005	3,734	3,073	2,632	644	10,083
<b>Impairment losses</b>					
At 1 January 2004, 31 December 2004 and 31 December 2005	–	200	–	–	200
<b>Net book value</b>					
At 31 December 2005	<u>3</u>	<u>159</u>	<u>527</u>	<u>–</u>	<u>689</u>
At 31 December 2004	<u>8</u>	<u>186</u>	<u>700</u>	<u>–</u>	<u>894</u>

**Notes of the Financial Statements**

Year ended 31 December 2005

**16. INTERESTS IN SUBSIDIARIES**

	Company	
	2005	2004
	HK\$'000	HK\$'000
Unlisted investments, at cost	42,569	42,569
Due from subsidiaries	30,985	28,488
Due to subsidiaries	(629)	(1,263)
	<hr/>	<hr/>
	72,925	69,794
Impairment losses	(38,853)	(35,184)
	<hr/>	<hr/>
	<b>34,072</b>	<b>34,610</b>
	<hr/> <hr/>	<hr/> <hr/>

The balances with subsidiaries are non-trade nature, unsecured, interest-free and are not repayable within the next 12 months.

## Notes of the Financial Statements

Year ended 31 December 2005

### 16. INTERESTS IN SUBSIDIARIES (continued)

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%	Distribution of films in various formats and sub-licensing of film rights
Era Communications Limited	Hong Kong	Ordinary HK\$50,000	–	100%	Investment holding
Era Digital Media Limited	Hong Kong	Ordinary HK\$10,000	–	100%	Games distribution and operation of entertainment related portals
Red River Agents Limited	Hong Kong	Ordinary HK\$2	–	100%	Advertising agent
*北京年恩長影文化傳播有 限公司 (“年恩”)	PRC	Registered capital RMB2,800,000	–	57%	Film rights agent

\* 年恩 is a sino-foreign equity joint venture enterprise with an operating period of 20 years commencing from 2 April 2004. The statutory financial statements of 年恩, prepared in accordance with generally accepted accounting principles in the PRC, were audited by Shanghai Jahwa Certified Public Accountants Co., Ltd. for tax filing purpose. For the purpose of these financial statements, RSM Nelson Wheeler, Certified Public Accountants, Hong Kong, have undertaken an independent audit of the financial statements of 年恩 prepared in accordance with the HKFRSs.



## Notes of the Financial Statements

Year ended 31 December 2005

### 17. INTEREST IN AN ASSOCIATE

	Group	
	2005 HK\$'000	2004 HK\$'000
Share of net assets	<u>          -</u>	<u>          -</u>

Particulars of the associate 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

### 18. CLUB MEMBERSHIP

	Group	
	2005 HK\$'000	2004 HK\$'000
Club membership, at cost	1,150	1,150
Impairment loss	<u>(500)</u>	<u>(500)</u>
	<u>          650</u>	<u>          650</u>

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

## Notes of the Financial Statements

Year ended 31 December 2005

### 19. DEFERRED TAX ASSETS

	Group	
	2005 HK\$'000	2004 HK\$'000
At 1 January	1,315	2,500
Impairment losses charged to income statement ( <i>note 6</i> )	(601)	(1,185)
Charged to the income statement for the year ( <i>note 11</i> )	(87)	–
At 31 December	<u>627</u>	<u>1,315</u>

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	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Accelerated depreciation allowances	(8)	(13)	271	183
Tax losses	635	1,328	9,588	8,092
	<u>627</u>	<u>1,315</u>	<u>9,859</u>	<u>8,275</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. Included in unrecognised tax losses are losses of approximately HK\$1,608,000 and HK\$4,541,000 that will expire in 2010 and 2009 respectively. The remaining unrecognised tax losses may be carried forward indefinitely.

## Notes of the Financial Statements

Year ended 31 December 2005

### 20. FILM RIGHTS

	<b>Group</b> HK\$'000
<b>Cost</b>	
At 1 January 2004	134,956
Additions	30,320
Write off	(87,264)
	<hr/>
At 31 December 2004	78,012
Adjustment on exchange difference	36
Additions	33,622
Write off	(39,028)
	<hr/>
At 31 December 2005	<u>72,642</u>
<b>Accumulated amortisation</b>	
At 1 January 2004	122,826
Charge for the year	30,230
Write off	(87,264)
	<hr/>
At 31 December 2004	65,792
Adjustment on exchange difference	7
Charge for the year	35,123
Write off	(38,897)
	<hr/>
At 31 December 2005	<u>62,025</u>
<b>Impairment losses</b>	
At 1 January 2004	1,210
Recognise for the year	3,688
	<hr/>
At 31 December 2004	4,898
Recognise for the year	415
Reversal	(2,752)
	<hr/>
At 31 December 2005	<u>2,561</u>
<b>Net book value</b>	
At 31 December 2005	<u><u>8,056</u></u>
At 31 December 2004	<u><u>7,322</u></u>



## Notes of the Financial Statements

Year ended 31 December 2005

### 21. TRADE AND OTHER RECEIVABLES

	<b>Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Trade receivables	<b>19,097</b>	24,978
Allowance for doubtful debts	<b>(1,911)</b>	(1,501)
	<hr/>	<hr/>
Trade receivables, net	<b>17,186</b>	23,477
Other receivables	<b>814</b>	1,811
Due from a related party	–	794
Due from an associate	–	3
	<hr/>	<hr/>
	<b>18,000</b>	26,085
	<hr/> <hr/>	<hr/> <hr/>

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

	<b>Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Current – 30 days	<b>7,040</b>	8,975
31 – 60 days	<b>5,589</b>	7,272
61 – 90 days	<b>2,027</b>	3,166
91 – 180 days	<b>2,081</b>	2,979
181 – 365 days	<b>365</b>	375
Over 1 year	<b>84</b>	710
	<hr/>	<hr/>
	<b>17,186</b>	23,477
	<hr/> <hr/>	<hr/> <hr/>

## Notes of the Financial Statements

Year ended 31 December 2005

### 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 2005 the Group had banking facilities of approximately HK\$3 million (2004: 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\$0.8 million (2004: HK\$0.7 million) as at 31 December 2005 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. SHARE CAPITAL

	Company	
	2005	2004
	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>

## Notes of the Financial Statements

Year ended 31 December 2005

### 25. TRADE AND OTHER PAYABLES

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Trade payables	8,754	11,095	–	–
Film right payables	4,374	7,111	–	–
Other payables	6,930	9,720	685	539
Receipts in advance	–	49	–	–
Due to related parties	161	122	–	–
Due to a minority equity holder of a subsidiary	784	118	–	–
	<b>21,003</b>	<b>28,215</b>	<b>685</b>	<b>539</b>

The aged analysis of trade payables is as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Current – 30 days	2,028	2,465
31 – 60 days	1,595	2,283
61 – 90 days	1,764	2,697
91 – 180 days	1,847	1,526
181 – 365 days	316	548
Over 1 year	1,204	1,576
	<b>8,754</b>	<b>11,095</b>

## Notes of the Financial Statements

Year ended 31 December 2005

### 25. TRADE AND OTHER PAYABLES (continued)

The aged analysis of film right payables is as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Current – 30 days	256	43
31 – 60 days	–	2
61 – 90 days	–	3
91 – 180 days	68	52
181 – 365 days	183	29
Over 1 year	3,867	6,982
	<u>4,374</u>	<u>7,111</u>

Included in trade payables of the Group as at 31 December 2005 are trading balances due to ultimate holding company, Era Communications Co., Ltd. (“ERA Taiwan”), of approximately HK\$Nil (2004: HK\$2,174,000).

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

## Notes of the Financial Statements

Year ended 31 December 2005

### 26. SHARE OPTION SCHEMES

Pursuant to written resolutions of the shareholders of the Company dated 5 June 2001, two share option schemes, namely Pre-IPO Share Option Scheme and Share Option Scheme, were adopted by the Company with a purpose to recognise the contribution of certain Directors, employees, consultants and advisors of the Group to the growth of the Group and/or the listing 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.

Movements in share options are as follows:

	Number of share options	
	2005	2004
At 1 January	6,520,000	6,630,000
Lapsed	(1,250,000)	(110,000)
At 31 December	<u>5,270,000</u>	<u>6,520,000</u>



**Notes of the Financial Statements**

Year ended 31 December 2005

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

Under the terms of the Share Option Scheme adopted by the Company, Directors are authorised, at their discretion, to invite any Directors and employees of the Group to take up options to subscribe for shares of the Company. The subscription price will be determined by the Directors, and will be equal to the higher of (i) the nominal value of the shares; (ii) the closing price per share of the Company as stated in the daily quotation sheet of 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 2005.

**27. CONTINGENT LIABILITIES****(a) Group**

As at 31 December 2005 the Group had contingent liabilities in respect of long service payments of approximately HK\$1,895,000 (2004: HK\$1,937,000). No provision has been made for this amount as at 31 December 2005.

**(b) Company**

As at 31 December 2005, unlimited corporate guarantee was given by the Company to a bank in respect of banking facilities granted to certain subsidiaries of the Company.

## Notes of the Financial Statements

Year ended 31 December 2005

### 28. COMMITMENTS

As at 31 December 2005 the Group had the following commitments:

#### (a) Operating lease commitments

	<b>Group</b>	
	<b>2005</b>	<b>2004</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Total future minimum lease payments under non-cancellable operating leases in respect of office premises are as follows:		
Within one year	<u>116</u>	<u>1,546</u>

#### (b) Other commitments

	<b>Group</b>	
	<b>2005</b>	<b>2004</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Unpaid purchase costs due to suppliers	3,589	1,764
Unpaid film rights due to licensors	<u>3,670</u>	<u>2,501</u>

The Company did not have any significant commitments as at 31 December 2005.

## Notes of the Financial Statements

Year ended 31 December 2005

### 29. RELATED PARTY TRANSACTIONS

Apart from those disclosed elsewhere in the financial statements, the Group had the following material related party transactions during the year:

	<b>2005</b>	<b>Group</b>
	<b>HK\$'000</b>	<b>2004</b>
		<b>HK\$'000</b>
Consultancy fee paid to a former substantial shareholder, Mr. Chiu Fu Sheng ( <i>note</i> )	<b>240</b>	480
Purchases from ERA Taiwan	<b><u>267</u></b>	<b><u>3,655</u></b>

*Note:* ERA Taiwan is the Company's ultimate holding company. Mr. Chiu Fu Sheng, a substantial shareholder of the Company up to 5 July 2005, is a major shareholder of ERA Taiwan. On 5 July 2005, Mr. Chiu Fu Sheng disposed of his entire equity interests in ERA Taiwan and ceased to be a related party of the Company.

Pursuant to a consultancy agreement dated 6 May 2003 entered into between Mr. Chiu Fu Sheng and the Group, 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.

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.

The Directors have confirmed that all the related party transactions were conducted in the ordinary course of business.

## Notes of the Financial Statements

Year ended 31 December 2005

### 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 rights distribution and film rights sub-licensing		Games distribution		Eliminations		Consolidated	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
<b>REVENUE</b>										
External revenue	65,951	68,844	5,683	2,857	7,829	12,993	-	-	79,463	84,694
Inter-segment revenue*	-	-	-	-	1,475	1,250	(1,475)	(1,250)	-	-
Total revenue	<u>65,951</u>	<u>68,844</u>	<u>5,683</u>	<u>2,857</u>	<u>9,304</u>	<u>14,243</u>	<u>(1,475)</u>	<u>(1,250)</u>	<u>79,463</u>	<u>84,694</u>
<b>RESULT</b>										
Segment result	<u>2,754</u>	<u>1,402</u>	<u>(3,726)</u>	<u>(4,502)</u>	<u>490</u>	<u>(371)</u>	<u>-</u>	<u>-</u>	<u>(482)</u>	<u>(3,471)</u>
Unallocated corporate expenses									<u>(6,351)</u>	<u>(6,156)</u>
Operating loss excluding interest income									<u>(6,833)</u>	<u>(9,627)</u>
Interest expenses									<u>(45)</u>	<u>(57)</u>
Interest income									<u>91</u>	<u>67</u>
Share of loss of an associate									<u>-</u>	<u>(156)</u>
Loss before taxation									<u>(6,787)</u>	<u>(9,773)</u>
Taxation									<u>(87)</u>	<u>-</u>
Loss for the year									<u><u>(6,874)</u></u>	<u><u>(9,773)</u></u>

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

**Notes of the Financial Statements**

Year ended 31 December 2005

**30. SEGMENT INFORMATION (continued)**
**(a) Primary reporting format – business segments (continued)**

	Home video products distribution		Theatrical rights distribution and film rights sub-licensing		Games distribution		Eliminations		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>ASSETS</b>										
Segment assets	<u>36,775</u>	<u>41,533</u>	<u>4,306</u>	<u>4,873</u>	<u>12,029</u>	<u>13,913</u>	<u>-</u>	<u>-</u>	<u>53,110</u>	<u>60,319</u>
Unallocated corporate assets									<u>7,791</u>	<u>14,707</u>
Consolidated total assets									<u><u>60,901</u></u>	<u><u>75,026</u></u>
<b>LIABILITIES</b>										
Segment liabilities	<u>14,948</u>	<u>21,968</u>	<u>3,538</u>	<u>2,759</u>	<u>1,812</u>	<u>2,932</u>	<u>-</u>	<u>-</u>	<u>20,298</u>	<u>27,659</u>
Unallocated corporate liabilities									<u>705</u>	<u>606</u>
Consolidated total liabilities									<u><u>21,003</u></u>	<u><u>28,265</u></u>
<b>OTHER INFORMATION</b>										
Capital expenditure	33,172	28,791	507	2,345	4	10	-	-	33,683	31,146
Depreciation and amortisation	34,432	29,722	934	1,083	34	245	-	-	35,400	31,050
Impairment losses	532	3,635	334	1,357	150	681	-	-	1,016	5,673
Reversal of impairment losses	(3,632)	(792)	(130)	-	(473)	-	-	-	(4,235)	(792)
Non-cash (income)/ expenses other than depreciation, amortisation and impairment losses	<u>399</u>	<u>(26)</u>	<u>143</u>	<u>-</u>	<u>(124)</u>	<u>131</u>	<u>-</u>	<u>-</u>	<u>418</u>	<u>105</u>

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



## **Notes of the Financial Statements**

Year ended 31 December 2005

### **31. ULTIMATE HOLDING COMPANY**

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

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

The financial statements were approved by the Board of Directors on 22 March 2006.