



M21 Technology Limited

(incorporated in Bermuda with limited liability)

Annual Report 2001



CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK 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 of the Stock Exchange 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 Stock Exchange. Listed companies are not generally required to issue paid announcements 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

Board of Directors

Executive Directors

Mr. Tong Hing Chi (Chairman)
Mr. Law Kwok Leung (CEO)
Dr. Hau Sek Ki

Non-Executive Directors

Mr. Chan Kwok Sun, Dennis

Independent Non-Executive Directors

Mr. Carl Chang
Mr. Sousa Richard Alvaro

Compliance Officer

Mr. Law Kwok Leung

Company Secretary

Mr. Lam King Pui, ACIS, ACS, FCCA, AHKSA

Authorised Representative

Mr. Tong Hing Chi
Mr. Law Kwok Leung

Qualified Accountant

Mr. Lai Siu Chung, ACCA, AHKSA

Audit Committee

Mr. Sousa Richard Alvaro
(Chairman of the audit committee)
Mr. Carl Chang

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business

Unit 106, 1/F, Block A, Po Lung Centre
11 Wang Chiu Road, Kowloon Bay
Kowloon
Hong Kong

Principal Bankers

The National Commercial Bank, Limited
Hong Kong Branch
1-3 Wyndham Street, Central
Hong Kong.

Principal Share Registrar and Transfer Office

Butterfield Corporate Services Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Abacus Share Registrars Limited
2401 Prince's Building
Central
Hong Kong

Sponsor

Shenyin Wanguo Capital (H.K.) Limited

Auditors

PricewaterhouseCoopers
Certified Public Accountants

Legal Advisers

As to Bermuda Law:
Conyers Dill & Pearman
As to Hong Kong Law:
Baker & McKenzie

Stock Quote

8153

Website of the company

www.m21.com.hk

Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors of M21 Technology Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"), I would like to present the first annual report of the Group since the listing of the Company's shares on Growth Enterprises Market of The Stock Exchange of Hong Kong Limited on 30th March 2001.

Group Results

During the period under review, the Group has achieved 1.8 times growth in turnover and 9.5 times growth in gross profit in comparing with last period ended 31st March 2000.

Comparing with period ended 31st March 2000, turnover and gross profit for the year ended 31st March 2001 have increase by approximately HK\$4 million and HK\$1 million respectively, which was attributable to the expansion of business activities to pre-mastering services and the effort of the Group's marketing team.

As the group is still in the development stage, increment in manpower cost and fixed assets were inevitable, wages and depreciation expenses had clawed back part of the gross profit and resulted in 32.9 per cent. increment in loss attributable to shareholders. However, we are optimistic of the group's growth in the coming years.

Dividends

The directors do not recommend the payment of any dividend for the year ended 31st March 2001.

Business Review

The group has been adopting several development strategies since the establishment of the group's earliest wholly-owned subsidiary, M21 Mastertech Company Limited ("M21 Mastertech") in 1999. M21 Mastertech was originally engaged in the mastering business, and has vertically integrated backward into the pre-mastering business in April 2000. At the same time M21 Mastertech was awarded with the ISO9002:1994 and was the first Digital Versatile Disc ("DVD") stamper manufacturer in Hong Kong in receiving such certification.



The Group's listing ceremony on 30th March, 2001



For the year ended 31st March 2001, income from pre-mastering services accounted for approximately 29% of the group's turnover whilst income from mastering services accounted for 71% of the group's turnover. Most of the group's sales during the year was derived from Hong Kong, accounting for approximately 94.5% of the group's sales, whilst the remaining 5.5% was derived from India and Thailand.

The utilization rate of the mastering production line increased from 20% as at 31st March 2000 to 55% by the end of March 2001. The production team expanded from 9 technicians to 11 technicians by the end of March 2001.

The group has also missioned to conduct research and development of compression technology with an anticipation of an increasing demand from the Internet users for high quality audiovisual data on the Internet, and has made remarkable progress in the development of the iP (Internet Protocol) encoder. The encoding equipment is intended for installation by Internet Content Providers ("ICPs"), Internet Service Providers ("ISPs"), broadcasters and cablecasters

Chairman's Statement

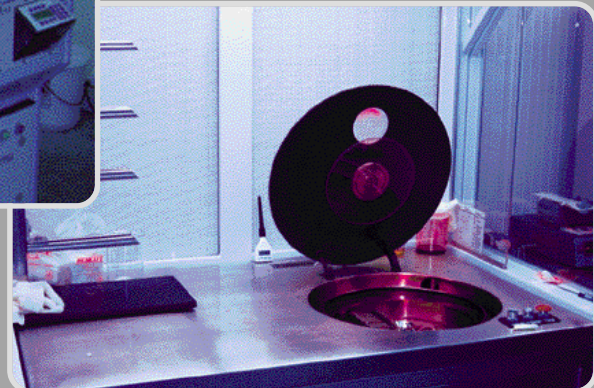
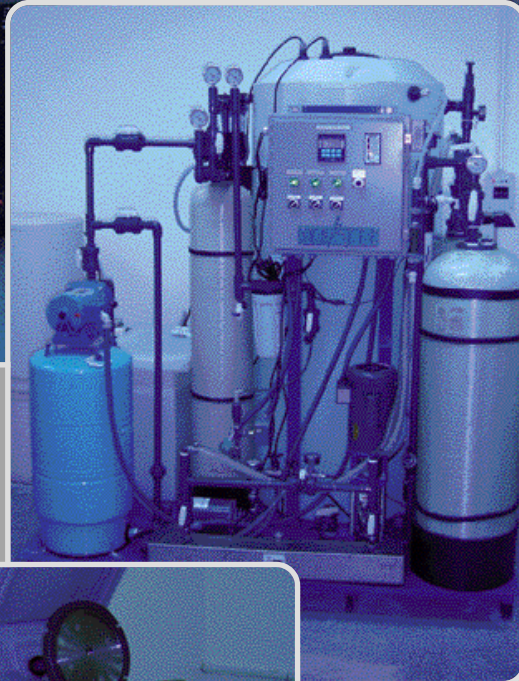
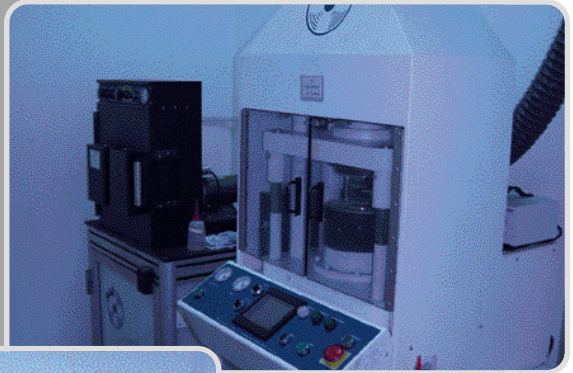
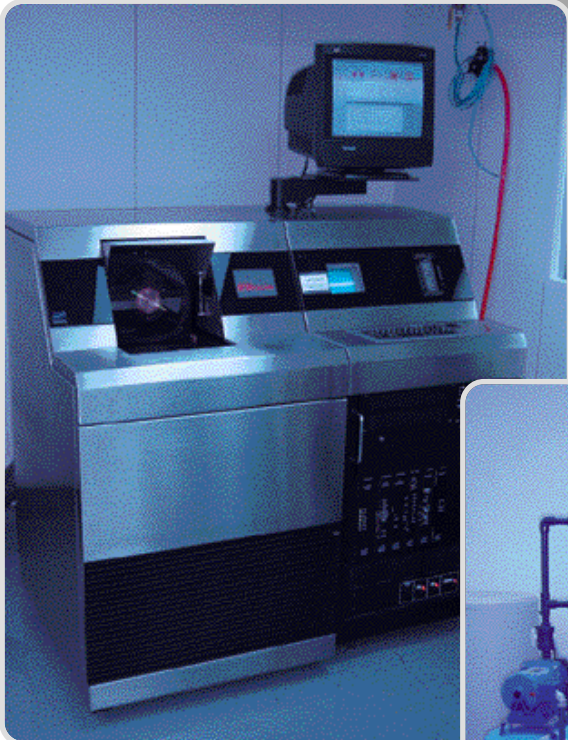
located in Asia. The group has made significant progress in the development of the encoder and the beta version was launched in September 2000. Various tests have been carrying out including a stress technical test by Xiamen University, the PRC.

The group has entered into a memorandum of understanding with Greenwich University in the United Kingdom (the "Greenwich University") for the joint research and development of the MPEG-7 compliant compression algorithm in December 2000, and has also entered into a memorandum of understanding with Hong Kong University of Science and Technology (the "HKUST") for the joint research and development of MPEG-4 compliant compression algorithm in December 2000. The group is in the process of finalising the formal agreements with Greenwich University and HKUST respectively.

On 30th March 2001, the group was successfully listed on the GEM of the Stock Exchange by way of Placing at the offer price of HK\$0.335. In the same month, M21 Mastertech also accredited with the ISO9001:2000 on its pre-mastering and mastering businesses.

Business Pursuits/Prospects

The business objectives of the group are to become a leader in the provision of pre-mastering and mastering services for audiovisual data in Hong Kong. To achieve its objectives, the group has devised a 2-year business plan comprising the development of the iP encoder, installation of an additional mastering production line, and research and development of new compression algorithm with various applications in relation to the transmission of audiovisual contents over the 3G network. The group is currently negotiating volume sales of the iP encoder with some potential buyers in PRC and one of these potential buyers has carried out integration tests in certain provinces in the PRC in April 2001. The group is planning the installation of an additional VCD/DVD/CD-ROM mastering line at around October 2001 to cope with the increasing demand for various types of stampers as stated in the Prospectus, and such production line is upgradable to produce DVD-RW stampers.



The Group's
mastering
equipment

Chairman's Statement

In support of the substantial research and development works that are scheduled to be undertaken by the group in the future, the group set up a consultancy panel in October 2000 which consists of academics and professionals from various renowned universities. It is intended that members of the consultancy panel will meet annually to provide assistance and advice on the direction and technological feasibility of the research and development projects carried out by the group.

The group also welcomes the introduction of master production line registration proposed by the Customs and Excise Department of Hong Kong. The group believes that such introduction will deter illegal stamper manufacturers and in turn benefits to the mastering industry as a whole. Detailed schedule for the implementation of such policy and the requirements for such registration are not yet stipulated by the Customs and Excise Department of Hong Kong. The Directors of the group will keep on monitoring the progress and do their best endeavour to ensure the group comply with any such requirements.

Use of Proceeds from the Placing of the Group's shares

The net proceeds of the Placing the group's shares received by the Company on 30th March 2001, after accruing the listing expenses and based on the Offer Price of HK\$0.335 per Share, were approximately HK\$22.68 million.

As at the balance sheet date 31st March 2001, the net proceeds which were not immediately required to be applied as those set out in the Business Plan of the Group's Prospectus are placed on short term deposits with authorised financial institutions in Hong Kong.

Subsequent to the year end date, approximately HK\$5,000,000 was repaid to Sundowner Management Limited, an indirect wholly-owned subsidiary of Mei Ah Entertainment Group Limited ("Mei Ah"), one of the Company's beneficial shareholder having its shares listed on the Stock Exchange of Hong Kong Limited, due to the fact that interest chargeable by Mei Ah against the group for outstanding balance is Hong Kong dollars prime lending rate+1.5% per annum whereas interest receivable from bank for short term deposits is only around 3% per annum. In the benefit of the group, partial repayment of loan from Mei Ah was made as abovementioned.

Appreciation

On behalf of the Board of Directors, I would like to take this opportunity to extend my sincere thanks and express appreciation to our business associates, customers and suppliers for their continual support, to the management and staff for their valuable dedication and devotion to the group throughout the years

Tong Hing Chi

Chairman

Hong Kong, 28th June 2001

Management Profile

Executive Directors

Mr. TONG Hing Chi, aged 46, is the Chairman and Managing Director of the Group. Mr. Tong has over 13 years' experience in the home entertainment industry, particularly multimedia and optical disc manufacturing, in Hong Kong and overseas. Mr. Tong is responsible for the strategic planning and development of the Group. Mr. Tong is a fellow of the Association of Chartered Certified Accountants and an associate of the Hong Kong Society of Accountants. He is also the managing director of Mei Ah Entertainment Group Limited, a company incorporated in Bermuda and listed on the Stock Exchange. Mr. Tong joined the group in February 1999.

Mr. LAW Kwok Leung, aged 40, is a major shareholder, founder, Compliance Officer and Chief Executive Officer of the group. Mr. Law is responsible for the formulation of corporate strategies, including initiation of video-compression-related research and development projects of the group. Mr. Law holds an honored Bachelor of Science degree in Mathematics with Operational Research and a Master's degree in Business Administration from the University of London. Mr. Law is a member of the Chartered Institute of Marketing, a fellow member of the Institute of Analysts and Programmers and full member of the Institute of Management. Before establishing the group, Mr. Law has been involved in the consultancy of audiovisual compression, transmission of audiovisual signals over the Internet and video-on-demand licensing. Mr. Law has 16 years of experience in the advanced technology. Mr. Law joined the group in February 1999.

Dr. HAU Sek Ki, aged 40, is the Chief Engineer of the mastering operations of the Group. Dr. Hau obtained his PhD in the Hong Kong Polytechnic University in 1995. Dr. Hau has extensive experience in optical disc mastering technology. Before joining the group in September 1999, Dr. Hau was a system engineer of a U.S. manufacturer of advanced glass mastering systems.

Non-Executive Director

Mr. CHAN Kwok Sun, Dennis, aged 51, has accumulated more than 20 years of execution experience in sales, marketing and production in the entertainment business, including with Disney and Era International Film and Distribution (Taiwan) and as an independent movie producer. He is currently a consultant to the Leisure and Cultural Services Department movie industry and the honorary committee of Hong Kong Performing Artists Guild and the executive committee member of the Hong Kong Film Directors Guild. Mr. Chan is a shareholder of Sino Regal Holding Limited, a founder and an Initial Management Shareholder of the Company. Mr. Chan was appointed as a non-executive Director on 1st January 2001.

Independent Non-Executive Directors

Mr. SOUSA Richard Alvaro, aged 40, was qualified as a solicitor of the High Court of Hong Kong in May 1996 and is now a solicitor of Messrs. Chan, Lau and Wai. Mr. Sousa was appointed as an independent non-executive Director on 30th January, 2001.

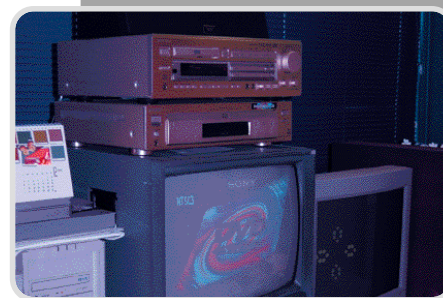
Mr. Carl CHANG, aged 44, holds a bachelor's degree of Arts (Honours) from the University of Hong Kong. Mr. Chang has vast experience in the broadcasting, publishing and other media related industries. Prior joining to the group as an independent non-executive director, Mr. Chang was the chief executive officer of Tom.com Limited, a company listed on GEM. Mr. Chang was appointed as an independent non-executive Director on 19th March, 2001.

Senior Management

Mr. LAI Siu Chung, aged 33, is the Financial Controller of the group. Mr. Lai is responsible for all financial and accounting matters including budgetary control and internal control procedures of the group. Mr. Lai graduated with a bachelor's degree of Business Administration from La Trobe University, Bendigo, Australia and is an associate member of the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants. Mr. Lai possesses more than seven years' accounting experience in different industries. Mr. Lai joined the group in September 2000.

Mr. LAM King Pui, aged 35, is the Company Secretary. He holds a degree of Bachelor of Arts in Accountancy and is an associate member of the Hong Kong Society of Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Lam joined the group in February 1999.

Mr. LAI Ka Man, aged 27, is the System Engineer of the group. Mr. Lai is responsible for the design and implementation of the networking system. Mr. Lai holds a bachelor's degree of Science with honors in Mathematics, Statistics and Computing from the University of Greenwich in United Kingdom. Before joining the group, Mr. Lai worked in a telecommunication company. He joined the Group in December 2000.



Report of the Directors

The directors submit their report together with the audited accounts for the year ended 31st March 2001.

Group reorganisation

The company was incorporated in Bermuda on 28th December 2000 as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended).

On 20th March 2001, pursuant to a corporate reorganisation scheme which included exchanges of shares in preparation for a listing of the shares of the company on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the company became the holding company of the subsidiaries listed under note 13(a) to the accounts. The shares of the company were listed on the GEM of the Stock Exchange on 30th March 2001.

The above reorganisation scheme has been reflected in these accounts by regarding the group, which comprises the company and its subsidiaries, as a continuing group. The basis of presentation and consolidation for the accounts is set out in note 1 to the accounts.

Principal activities and geographical analysis of operations

The principal activity of the company is investment holding. The activities of the subsidiaries are set out in note 13 to the accounts.

An analysis of the group's turnover and contribution to operating loss for the year by principal activity is set out in note 3 to the accounts.

No geographical analysis is provided as less than 10% of the consolidated turnover and less than 10% of the consolidated trading results of the group are attributable to markets outside Hong Kong.

Results and appropriations

The results for the year are set out in the consolidated profit and loss account on page 23.

The directors do not recommend the payment of a dividend.

Reserves

Movements in the reserves of the group and the company during the year are set out in note 16 to the accounts.

Fixed assets

Details of the movements in fixed assets are set out in note 12 to the accounts.

Share capital

Details of the movements in share capital of the company are set out in note 15 to the accounts.

Distributable reserves

Distributable reserves of the company at 31st March 2001 amounted to HK\$12,893,000.

Financial summary

A summary of the results and of the assets and liabilities of the group for the last two years (the earliest period) is set out on pages 23 to 24.

Purchase, sale or redemption of shares

The company has not redeemed any of its shares during the year. Neither the company nor any of its subsidiaries has purchased or sold any of the company's shares during the year.

Report of the Directors

Directors

The directors during the year were:

Dr. HAU Sek Ki	(appointed on 1st January 2001)
Mr. HUNG Cho Sing	(appointed on 1st January 2001 and resigned on 19th March 2001)
Mr. LAW Kwok Leung	(appointed on 1st January 2001)
Mr. TONG Hing Chi	(appointed on 1st January 2001)
Mr. CHAN Kwok Sun, Dennis	(appointed on 1st January 2001) *
Mr. CHANG Carl	(appointed on 19th March 2001) #
Mr. SOUSA Richard Alvaro	(appointed on 1st January 2001) #

* *Non-executive director*

Independent non-executive directors

There being no provision in the company's Articles of Association for retirement by rotation, all current directors continue in office.

Directors' service contracts

Three executive directors, Mr. Law Kwok Leung, Mr. Tong Hing Chi and Dr. Hau Sek Ki, have entered into service agreements with the company commencing from 1st March 2001 for an initial term of two years. Each of the agreements can be terminated by either party giving not less than six months' written notice or payment of salary in lieu thereof to the other party, such notice will expire no earlier than 28th February 2003.

Each of them is entitled to a basic monthly salary subject to annual salary review and any increase under such review shall not exceed 15 per cent. of that executive director's then existing monthly salary. In addition, each of them is also entitled to a discretionary bonus payable at the discretion of the Board and the aggregate amount of all discretionary bonuses payable to them shall not exceed 5 per cent. of the consolidated profit of the group for such financial year.

Directors' service contracts *(continued)*

Neither of them is entitled to vote on any resolution of the Board relating to the basic monthly salary, the discretionary bonus and other benefits and allowances payable to him.

Their respective current aggregate annual basic salaries are as follows:

Mr. Law Kwok Leung	HK\$780,000
Mr. Tong Hing Chi	HK\$120,000
Dr. Hau Sek Ki	HK\$744,000

Save as disclosed above, none of the directors has entered or has proposed to enter into any service agreements with any member of the group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

Biographical details of directors and senior management

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Brief biographical details of directors and senior management are set out on pages 10 to 11.

Directors' interests in contracts

Save as disclosed in "Connected transactions" and "Directors' interests in equity or debt securities"; no contracts of significance in relation to the company's business to which the company, its subsidiaries or its former ultimate holding company and fellow subsidiaries was a party and in which a director of the company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

At no time during the year was the company, its subsidiaries or its former ultimate holding company and fellow subsidiaries a party to any arrangements to enable the directors of the company to acquire benefits by means of the acquisition of shares in, or debentures of, the company or any other body corporate.

Report of the Directors

Connected transactions

- (a) Significant related party transactions entered into by the group during the year ended 31st March 2001, which do not constitute connected transactions under the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited ("Listing Rules"), are disclosed in note 22(iv) to the accounts.
- (b) Other related party transactions, which also constitute connected transactions under the Listing Rules, required to be disclosed pursuant to the GEM Listing Rules, are as follows:
 - (i) pursuant to the Pre-mastering Services and Stamper Supply Agreement dated 20th March 2001, M21 Mastertech Company Limited ("Mastertech"), a subsidiary of the group, has been appointed a pre-mastering service provider and stamper supplier of Silver Kent Technology Limited ("Silver Kent") with effect from 1st April 2000 to 31st March 2003. Silver Kent is 55 per cent. owned by Sino Regal Holding Limited ("SRH") and 45 per cent. owned by Sundowner Management Limited ("Sundowner"). Both SRH and Sundowner are substantial shareholders of the company. The transactions are conducted in the normal course of business at prices and terms comparable with those charged to and contracted with independent third party customers of Mastertech;
 - (ii) pursuant to the Pre-mastering Services Agreement dated 20th March 2001, Mastertech has been appointed a pre-mastering services provider of Mei Ah Video Production Company Limited ("MAVP"), which is an indirect wholly-owned subsidiary of Mei Ah Entertainment Group Limited ("Mei Ah Entertainment"), a company incorporated in Bermuda and listed on the Stock Exchange, for the period from 1st April 2000 to 31st March 2003. The transactions are conducted in the normal course of business at prices and terms comparable with those charged to and contracted with independent third party customers of Mastertech;

Connected transactions *(continued)*

- (iii) pursuant to the Leasing Agreement dated 20th March 2001, pre-mastering equipment was leased from MAVP with effect from 1st April 2000 for a term of three years at a monthly rent of HK\$50,000 or such lower sum as may be agreed between MAVP and Mastertech from time to time.
- (iv) pursuant to the Loan Agreement dated 20th March 2001, loan of approximately HK\$8,741,000 was advanced by Sundowner, an indirect wholly-owned subsidiary of Mei Ah Entertainment, to M21 Investment Limited ("M21 Investment"), a subsidiary of the group, for a term for the period from 20th March 2001 to 20th March 2004. The loan is repayable in full upon the expiry of its three-year term, Sundowner does not have the right to demand repayment of such loan prior to the maturity date while M21 Investment has the right to prepay all or part of the loan prior to such date. The amount is unsecured and interest is charged at an annual rate which is equal to the prime lending rate offered by The Hong Kong and Shanghai Banking Corporation Limited plus 1.5 per cent..

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Directors' interests in equity or debt securities

At 31st March 2001, the interests of the directors and chief executive in the shares and options of the company (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI ordinance")), as recorded in the register maintained by the company under Section 29 of the Securities (Disclosure of Interests) Ordinance or as notified to the company were as follows:

Ordinary shares of HK\$0.01 each in M21 Technology Limited

Name of director	Number of shares	
	Personal interests	Corporate interests <i>(note a)</i>
Mr. Law Kwok Leung	7,812,500	111,718,750
Mr. Tong Hing Chi	7,812,500	—

Note:

- (a) 111,718,750 shares are held by SRH, a company in which Mr. Law Kwok Leung has an equity interest of 70% therein.

Report of the Directors

Substantial shareholders

The register of substantial shareholders maintained under Section 16(1) of the Securities (Disclosure of Interests) Ordinance shows that as at 31st March 2001, the company had been notified of the following substantial shareholders' interests, being 10% or more of the company's issued share capital. These interests are in addition to those disclosed above in respect of the directors and chief executive.

Name of shareholders	Number of shares	Percentage of share capital (%)
SRH	111,718,750	35.75
Sundowner	91,406,250	29.25
Mei Ah (China) Company Limited (<i>note a</i>)	91,406,250	29.25
MAVP (<i>note b</i>)	91,406,250	29.25
Mei Ah Holdings Limited (<i>note c</i>)	91,406,250	29.25
Mei Ah Entertainment Group Limited (<i>note d</i>)	91,406,250	29.25
Kuo Hsing Holdings Limited (<i>note e</i>)	91,406,250	29.25
Li Kuo Hsing (<i>note f</i>)	91,406,250	29.25

Notes:

- (a) Sundowner is a wholly-owned subsidiary of Mei Ah (China) Company Limited ("Mei Ah China"). The shares referred to herein relate to the same parcel of shares held by Sundowner.
- (b) Mei Ah China is a wholly-owned subsidiary of MAVP. The shares referred to herein relate to the same parcel of shares held by Sundowner.
- (c) MAVP is a wholly-owned subsidiary of Mei Ah Holdings Limited. The shares referred to herein relate to the same parcel of shares held by Sundowner.
- (d) Mei Ah Holdings Limited is a wholly-owned subsidiary of Mei Ah Entertainment Group Limited ("Mei Ah Entertainment"). The shares referred to herein relate to the same parcel of shares held by Sundowner.
- (e) As at 30th March 2001, Kuo Hsing Holdings Limited is interested in approximately 52.6 per cent. of the issued share capital of Mei Ah Entertainment. The shares referred to herein relate to the same parcel of shares held by Sundowner.
- (f) Kuo Hsing Holdings Limited is wholly owned by Mr. Li Kuo Hsing, chairman of Mei Ah Entertainment. The shares referred to herein relate to the same parcel of shares held by Sundowner.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the company were entered into or existed during the year.

Pre-emptive rights

There is no provision for pre-emptive rights under the company's bye-laws and there was no restriction against such rights under the laws of Bermuda.

Major customers and suppliers

The percentages of purchases and sales for the year attributable to the group's major suppliers and customers are as follows:

Purchases

— the largest supplier	28%
— five largest suppliers combined	75%

Sales

— the largest customer	53%
— five largest customers combined	66%

As at 31st March 2001, Mr. Tong Hing Chi who is a director of the company, is also a director and has beneficial interest in the group's largest customer. All transactions between the group and the customer concerned have been carried out on normal commercial terms and in the ordinary course of business of the group.

Save as aforesaid, none of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the company's share capital) had an interest in the major suppliers or customers noted above.

Board practices and procedures

The company has complied with Board Practices and Procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules, since listed on the GEM of the Stock Exchange.

Report of the Directors

Audit committee

Pursuant to the Listing Rules, an audit committee, comprising two independent non-executive directors, namely, Mr. Sousa Richard Alvaro and Mr. Carl Chang, was established on 20th March 2001.

By reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants, written terms of reference which describe the authority and duties of the audit committee were prepared and adopted by the Board of the company on the same date. The principal activities of the audit committee include the review and supervision of the group's finance reporting process and internal controls.

Directors' interest in competing business

None of the directors or management shareholders of the company (as defined in the GEM Listing Rules) has an interest in a business which compete or may compete with the business of the group.

Post balance sheet date events

Details of the significant post balance sheet date event is set out in note 23 to the accounts.

Auditors

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Tong Hing Chi

Chairman

Hong Kong, 28th June 2001

Auditors' Report

AUDITORS' REPORT TO THE SHAREHOLDERS OF M21 TECHNOLOGY LIMITED

(incorporated in Bermuda with limited liability)

We have audited the accounts on pages 23 to 48 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts 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 accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's and the group's circumstances, 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 accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and the group as at 31st March 2001 and of the loss 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.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 28th June 2001

Consolidated Profit and Loss Account

For the year ended 31st March 2001

	<i>Note</i>	Year ended 31st March 2001 HK\$'000	Period from 5th February 1999 to 31st March 2000 HK\$'000
Turnover	3	6,244	2,217
Cost of sales		(4,851)	(2,084)
Gross profit		1,393	133
Other revenue	3	—	77
General, administrative and other expenses		(3,609)	(2,094)
Operating loss	4	(2,216)	(1,884)
Finance costs	5	(750)	(348)
Loss attributable to shareholders	7	(2,966)	(2,232)
Basic loss per share	9	(1.45 cents)	(1.11 cents)

The company has no recognised gains and losses other than the loss stated above and therefore no separate statement of recognised gains and losses has been presented.

Consolidated Balance Sheet

As at 31st March 2001

	Note	2001 HK\$'000	2000 HK\$'000
Fixed assets	12	10,852	13,736
<hr/>			
Current assets			
Inventories	14	143	—
Accounts receivable		481	—
Other receivables and deposits		109	42
Amounts due from fellow subsidiaries		—	987
Amounts due from related companies	18	3,299	—
Bank balances and cash		28,777	—
		32,809	1,029
<hr/>			
Current liabilities			
Other payables and accrued charges		5,478	1,413
Amounts due to related companies	19	3,775	21
Bank overdraft — unsecured		—	25
		9,253	1,459
<hr/>			
Net current assets/(liabilities)		23,556	(430)
<hr/>			
		34,408	13,306
<hr/>			
Financed by:			
Share capital	15	3,125	200
Reserves	16	22,542	(2,429)
<hr/>			
Shareholders' funds/(capital deficiency)		25,667	(2,229)
Loan from a shareholder	20	8,741	4,500
Loans from related companies	20	—	11,035
		34,408	13,306
<hr/>			

On behalf of the Board

Tong Hing Chi
Director

Law Kwok Leung
Director

Balance Sheet

As at 31st March 2001

	<i>Note</i>	<i>HK\$'000</i>
Investment in a subsidiary	13	35,914
Current assets		
Accounts receivable		4
Bank balances and cash		55
		59
Current liabilities		
Other payable and accruals		200
Net current liabilities		(141)
		35,773
Financed by:		
Share capital	15	3,125
Reserves	16	32,648
Shareholders' funds		35,773

On behalf of the Board

Tong Hing Chi
Director

Law Kwok Leung
Director

Consolidated Cash Flow Statement

For the year ended 31st March 2001

	Note	2001 HK\$'000	2000 HK\$'000
Net cash inflow from operating activities	17(a)	5,528	154
Returns on investments and servicing of finance			
Interest received		—	77
Interest paid		(750)	(348)
Net cash outflow from returns on investments and servicing of finance		(750)	(271)
Investing activities			
Purchase of fixed assets		(44)	(15,443)
Net cash outflow from investing activities		(44)	(15,443)
Net cash inflow/(outflow) before financing		4,734	(15,560)
Financing	17(b)		
Net proceeds from issue of shares		22,680	—
Loan from a shareholder		—	4,500
Loans from related companies		1,388	11,035
Net cash inflow from financing		24,068	15,535
Increase/(decrease) in cash and cash equivalents		28,802	(25)
Cash and cash equivalents at the beginning of the year/period		(25)	—
Cash and cash equivalents at the end of the year/(period)		28,777	(25)
Analysis of balances of cash and cash equivalents			
Bank balances and cash		28,777	—
Bank overdraft		—	(25)
		28,777	(25)

Notes to the Accounts

1 Group reorganisation and basis of preparation

- (a) The company was incorporated in Bermuda on 28th December 2000 as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended).
- (b) On 20th March 2001, pursuant to a group reorganisation (the "Reorganisation") in preparation for a listing of the company's shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the company acquired the entire issued share capital of M21 Investment Limited through a share swap and became the holding company of M21 Investment Limited and its subsidiaries. Details of the Reorganisation are set out in the prospectus of the company dated 26th March 2001. The shares of the company were listed on the GEM of the Stock Exchange on 30th March 2001.
- (c) Merger accounting is adopted in the presentation of the group's consolidated accounts pursuant to Hong Kong Statement of Standard Accounting Practice 2.127 "Accounting for group reconstructions". The consolidated accounts of the group for the year ended 31st March 2001, including the comparative figures, are prepared as if the company had been the holding company of the group from 5th February 1999, the earliest date of incorporation of the companies now comprising the group.
- (d) The difference between the nominal value of the shares of M21 Investment Limited acquired pursuant to the Reorganisation and the nominal value of the company's shares issued in exchange therefor is dealt with in the merger reserve on consolidation.
- (e) The accounts have been prepared under the historical cost convention in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.
- (f) No balance sheet of the company as at 31st March 2000 is presented in the accounts, as the company was not incorporated on that date.

Notes to the Accounts

2 Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Consolidation

- (i) The consolidated accounts include the accounts of the company and its subsidiaries made up to 31st March.
- (ii) The Reorganisation referred to in note 1 above has been accounted for as if the company had been the holding company of the group from the beginning of the earliest period presented. The consolidated accounts include the accounts of the company and its subsidiaries made up to 31st March. Apart from the Reorganisation referred to in note 1 above, the results of the subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.
- (iii) All significant intercompany transactions and balances within the group are eliminated on consolidation.
- (iv) A subsidiary is a company in which the company, directly or indirectly, controls more than half of the voting power or issued share capital or controls the composition of the board of directors.
- (v) Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.
- (vi) In the company's balance sheet the investments in subsidiaries are stated at cost less provision, if necessary, for any permanent diminution in value other than temporary in nature. The results of subsidiaries are accounted for by the company on the basis of dividends received and receivable.

2 Principal accounting policies *(continued)*

(b) Fixed assets

Fixed assets are stated at cost less accumulated depreciation, and are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight-line basis. The principal annual rates used are as follows:

Leasehold improvements	10%
Plant and machinery	20%
Furniture, fixtures and equipment	20%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the group.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

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

(c) 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. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(d) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises invoiced cost of inventories. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(e) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

Notes to the Accounts

2 Principal accounting policies *(continued)*

(f) Deferred taxation

Deferred taxation is accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(g) Retirement benefit costs

The group's contributions to the defined contribution retirement scheme are expenses as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the scheme are held separately from those of the group in an independently administered fund.

(h) Research and development costs

Research and development costs are expensed as incurred, except for development costs where the technical feasibility of the product under development has been demonstrated, costs are identifiable and a market exists for the product such that it is probable that it will be profitable. During the year, all the research and development costs have been expensed.

(i) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transactions dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

(j) Revenue recognition

- (i) Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.
- (ii) Revenue from the provision of pre-mastering services is recognised when the services are rendered.
- (iii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

3 Revenues and turnover

The group is principally engaged in the manufacture of stampers for audiovisual products, the provision of pre-mastering services and research and development of internet protocol encoders and data compression technology in Hong Kong. Revenues recognised during the year/period are as follows:

	Group	
	Year ended 31st March 2001 HK\$'000	Period from 5th February 1999 to 31st March 2000 HK\$'000
Turnover		
Sale of stampers for audiovisual products	4,432	2,217
Provision of pre-mastering services	1,812	—
	6,244	2,217
Other revenue		
Interest income	—	77
Total revenues	6,244	2,294

An analysis of the group's turnover and contribution to operating loss for the year/period by principal activity and market is as follows:

	Turnover		Operating loss	
	Year ended 31st March 2001 HK\$'000	Period from 5th February 1999 to 31st March 2000 HK\$'000	Year ended 31st March 2001 HK\$'000	Period from 5th February 1999 to 31st March 2000 HK\$'000
Principal activities:				
Sale of stampers	4,432	2,217	(2,819)	(1,884)
Provision of pre-mastering services	1,812	—	603	—
	6,244	2,217	(2,216)	(1,884)

No geographical analysis is provided as less than 10% of the consolidated turnover and less than 10% of the consolidated trading results of the group are attributable to markets outside Hong Kong.

Notes to the Accounts

4 Operating loss

Operating loss is stated after charging the following:

	Group	
	Year ended	Period from
	31st March	5th February
	2001	1999 to
	HK\$'000	31st March
		2000
		<i>HK\$'000</i>
Auditors' remuneration	280	38
Cost of inventories sold	934	479
Depreciation	2,928	1,707
Operating leases in respect of		
— land and buildings	168	177
— plant and machinery	600	—
Staff costs (including directors' emoluments)	2,595	941
Research and development costs	130	—

5 Finance costs

	Group	
	Year ended	Period from
	31st March	5th February
	2001	1999 to
	HK\$'000	31st March
		2000
		<i>HK\$'000</i>
Interest on bank overdraft	—	13
Interest on loan from a shareholder/a related company	750	335
	750	348

6 Taxation

No provision for Hong Kong profits tax has been made in the accounts as there was no estimated assessable profit for the year (period ended 31st March 2000: Nil).

Potential deferred tax asset for the year/period has not been recognised for in the profit and loss account in respect of the following:

	Group	
	Year ended 31st March 2001 HK\$'000	Period from 5th February 1999 to 31st March 2000 HK\$'000
Accelerated depreciation allowances	335	(1,397)
Tax losses	85	1,754
	420	357

At 31st March 2001, the net potential deferred tax asset not provided for amounted to:

	Group	
	2001 HK\$'000	2000 HK\$'000
Accelerated depreciation allowances	(1,062)	(1,397)
Tax losses	1,839	1,754
	777	357

7 Loss attributable to shareholders

The loss attributable to shareholders is dealt with in the accounts of the company to the extent of approximately HK\$214,000 (period ended 31st March 2000: Nil).

8 Dividends

No dividends had been paid or declared by the company during the year/period.

Notes to the Accounts

9 Loss per share

The calculation of basic loss per share is based on the group's loss attributable to shareholders of HK\$2,966,000 (period ended 31st March 2000: HK\$2,232,000) and the weighted average number of 204,152,000 shares (period ended 31st March 2000: 203,125,000 shares) deemed to be issued during the year/period. In determining the weighted average number of shares deemed to be issued in the current year, the 20,000,000 shares issued before the capitalisation issue and the capitalisation issue of 183,125,000 shares as referred to in notes 15(b) and 15(d) respectively were deemed to have been issued throughout the accounting year/period presented.

Diluted loss per share for the year ended 31st March 2001 and the period ended 31st March 2000 was not disclosed as there were no dilutive potential ordinary shares.

10 Directors' and senior management's emoluments

(a) Directors' remuneration

The aggregate amounts of emoluments paid and payable to directors of the company during the year/period are as follows:

	Year ended 31st March 2001 HK\$'000	Period from 5th February 1999 to 31st March 2000 HK\$'000
Fees	—	—
Other emoluments		
— basic salaries and allowances	845	406
— provident fund contributions	39	12
	884	418

None of the independent non-executive directors received any fees and emoluments during the year (period ended 31st March 2000: Nil).

During the year, the executive directors received individual emoluments for the year ended 31st March 2001 of approximately HK\$806,000 (period ended 31st March 2000: HK\$418,000), HK\$68,000 (period ended 31st March 2000: Nil) and HK\$10,000 (period ended 31st March 2000: Nil) respectively.

No director waived or agreed to waive any of their emoluments in respect of the year ended 31st March 2001 and period ended 31st March 2000.

10 Directors' and senior management's emoluments *(continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the group for the year include one directors (period ended 31st March 2000: one) whose emolument is reflected in the analysis presented above. The emoluments payable to the remaining four (period ended 31st March 2000: four) individuals during the year are as follows:

	Year ended 31st March 2001 HK\$'000	Period from 5th February 1999 to 31st March 2000 HK\$'000
Basic salaries, allowances and benefits in kind	384	394
Provident fund contributions	14	14
	398	408

During the year ended 31st March 2001 and period ended 31st March 2000, no emoluments have been paid by the group to the directors or the four highest paid individuals as an inducement to join the group, or as compensation for loss of office.

11 Retirement benefit costs

The group contributes to a defined contribution retirement scheme which provides retirement benefits to its employees. The scheme's assets are held in a provident fund managed by an independent administrator. Under the scheme, both the employer and the employees are required to contribute 5 per cent. of the basic salary of the employees on a monthly basis. The employees are entitled to 100 per cent. of the employer's contribution and accrued interest after 10 years of completed service, or at a reduced scale of between 20 per cent. and 90 per cent. after completion of 2 to 9 years' service, in which case the forfeited contributions and the related accrued interest are to be used to reduce the employer's contribution.

Notes to the Accounts

11 Retirement benefit costs *(continued)*

In addition to the defined contribution retirement scheme, with effect from 1st December 2000, the group also provides a mandatory provident fund scheme ("MPF Scheme") for its staff in Hong Kong in compliance with the requirements under the Mandatory Provident Fund Scheme Ordinance. Under the MPF Scheme, the group's contributions are at 5% of employees' relevant income as defined in the Hong Kong Mandatory Provident Fund Scheme Ordinance up to a maximum of HK\$1,000 per employee per month. The employees also contribute a corresponding amount to the MPF Scheme from 31st December 2000 if their relevant income is more than HK\$4,000 per month. The MPF contributions are fully and immediately vested in the employees as accrued benefits once they are paid. All benefits derived from the mandatory contribution must be preserved until the employee reaches the retirement age of 65 subject to a few exceptions. The total contribution to the MPF Scheme paid by the group for the year ended 31st March 2001 amounted to approximately HK\$48,000.

The aggregate employer's contributions, net of forfeited contributions and their accrued interest, which have been dealt with in the consolidated accounts amounted to:

	Group	
	Year ended 31st March 2001 HK\$'000	Period from 5th February 1999 to 31st March 2000 HK\$'000
Gross employer's contributions	100	27
Less: forfeited contributions and related accrued interest utilised to offset employer's contributions	(18)	—
Net employer's contributions charged to the profit and loss account	82	27

As at 31st March 2001, no forfeited contributions were available to the group to reduce its future contributions to the provident fund scheme (period ended 31st March 2000: Nil).

12 Fixed assets

	Group			
	Leasehold improvements <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost				
At 1st April 2000	1,616	13,802	25	15,443
Additions	—	43	1	44
At 31st March 2001	1,616	13,845	26	15,487
Accumulated depreciation				
At 1st April 2000	94	1,610	3	1,707
Charge for the year	162	2,761	5	2,928
At 31st March 2001	256	4,371	8	4,635
Net book value				
At 31st March 2001	1,360	9,474	18	10,852
At 31st March 2000	1,522	12,192	22	13,736

13 Investment in subsidiaries — Company

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Unlisted shares, at cost (note (a))	13,307	—
Amount due from a subsidiary (note (b))	22,607	—
	35,914	—

Notes to the Accounts

13 Investment in subsidiaries — Company *(continued)*

(a) The following is a list of the company's subsidiaries at 31st March 2001:

Name	Place of incorporation	Principal activities/ place of operations	Particulars of issued share capital	Interest held	
				Directly	Indirectly
M21 Investment Limited	British Virgin Islands	Investment holding/ Hong Kong	400 ordinary shares of US\$1 each	100%	—
M21 Mastertech Company Limited	Hong Kong	Manufacture of stampers and provision of pre-mastering services for audiovisual products/ Hong Kong	2,000 ordinary shares of HK\$1 each	—	100%
M21 R&D Corporation Limited	Hong Kong	Research and development of internet protocol encoders and data compression technology/ Hong Kong	1,000 ordinary shares of HK\$1 each	—	100%

(b) The amount due from M21 Mastertech Company Limited primarily represents the net proceeds from the placement of the company's shares which is unsecured, interest-free and has no fixed terms of repayment.

14 Inventories

	2001 HK\$'000	2000 HK\$'000
Raw materials, at cost	143	—

15 Share capital

2001
HK\$'000

Authorised

700,000,000 ordinary shares of HK\$0.01 each **7,000**

Issued and fully paid

312,500,000 ordinary shares of HK\$0.01 each **3,125**

- (a) The company was incorporated in Bermuda on 28th December 2000 with an authorised capital of HK\$100,000 divided into 10,000,000 shares of HK\$0.01 each, of which 5,500,000 shares were allotted and issued nil paid to Sino Regal Holding Limited and 4,500,000 shares were allotted and issued nil paid to Sundowner Management Limited on 30th January 2001.
- (b) In preparation for the listing of the company's shares on the GEM of the Stock Exchange, the following changes in authorised and issued share capital of the company took place on 20th March 2001:
- (i) the authorised share capital of the company was increased to HK\$7,000,000 by the creation of an additional 690,000,000 shares of HK\$0.01 each;
 - (ii) as consideration for the acquisition by the company of the entire issued share capital of M21 Investment Limited, the holding company of the group prior to the Reorganisation, an aggregate of 10,000,000 shares of HK\$0.01 each in the company were allotted, issued and credited as fully paid to the then shareholders of M21 Investment Limited and such shares allotted and issued nil paid on 30th January 2001 were credited as fully paid; and
 - (iii) under the Pre-Placing Placement, 15,625,000 shares in the company were granted to the following executive directors of the company at a cash subscription price of HK\$0.01 each, in recognition of their significant contribution to the establishment and business development of the group.

Directors

Number of shares

Mr. Law Kwok Leung	7,812,500
Mr. Tong Hing Chi	7,812,500

Notes to the Accounts

15 Share capital *(continued)*

- (c) On 30th March 2001, 93,750,000 shares of HK\$0.01 each in the company were issued by way of placing at a price of HK\$0.335 per share (the "Placing") for cash consideration of approximately HK\$31,407,000. The excess over the par value of the shares issued was credited to the share premium account.
- (d) On 30th March 2001, 183,125,000 shares of HK\$0.335 each were allotted, issued at par and fully paid to the shareholders whose names appeared on the register of members of the company as at the close of business on 20th March 2001 by way of the capitalisation of a sum of HK\$1,831,250 out of the credit of share premium account of the company arising from the Placing.
- (e) The share capital as at 31st March 2000 represented the issued and fully paid share capital of the company, arising on incorporation and from the share swap transactions as described in notes (a) and (b)(ii) above, which was deemed to have been in issue throughout the accounting years presented in these accounts in accordance with the basis of preparation as referred to in note 2(a) to the accounts.
- (f) Under the share option scheme (the "Share Option Scheme") approved by the shareholders, the directors of the company may, at its discretion, invite full-time employees including any executive directors to take up options to subscribe for shares in the company representing up to a maximum of 30 per cent. of the issued share capital of the company from time to time, excluding for this purpose from the calculation of issued share capital (i) any shares issued pursuant to the exercise of options under the Share Option Scheme or pursuant to the exercise of options under any other scheme; and (ii) any pro rata entitlements to further shares issued in respect of those shares referred to in (i) above during a period of 10 consecutive years from the date of adoption of the Share Option Scheme.
- (g) The subscription price for the shares in relation to options to be granted under the Share Option Scheme shall be determined by the directors and shall be at least the highest of (i) the closing price of the shares on the date of grant (the "Offer Date"); (ii) the average closing price of the shares for the five business days immediately preceding the Offer Date; and (iii) the nominal value of the shares. The options are exercisable within a period of not less than 3 years nor more than 10 years from the Offer Date.

No share options were granted under the Share Option Scheme since its adoption.

16 Reserves

(a)

	Group			
	Share premium	Accumulated losses	Merger reserve	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>(note i)</i> <i>HK\$'000</i>	<i>HK\$'000</i>
At 5th February 1999	—	—	—	—
Loss for the period	—	(2,232)	—	(2,232)
Issue of shares in M21 Investment Limited pursuant to the Reorganisation	—	—	(197)	(197)
At 31st March 2000	—	(2,232)	(197)	(2,429)
Company and subsidiaries At 31st March 2000	—	(2,232)	(197)	(2,429)
At 1st April 2000	—	(2,232)	(197)	(2,429)
Placing of shares <i>(note 15(c))</i>	30,469	—	—	30,469
Placing and listing expenses	(8,883)	—	—	(8,883)
Capitalisation issue <i>(note 15(d))</i>	(1,831)	—	—	(1,831)
Loan capitalisation	8,182	—	—	8,182
Loss for the year	—	(2,966)	—	(2,966)
At 31st March 2001	27,937	(5,198)	(197)	22,542
Company and subsidiaries At 31st March 2001	27,937	(5,198)	(197)	22,542

Note:

- (i) The merger reserve of the group includes the difference between the nominal value of the share capital of a subsidiary acquired and the nominal value of the shares issued by the company in exchange thereof.

Notes to the Accounts

16 Reserves (continued)

(b)

	Company			
	Share premium <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April 2000	—	—	—	—
Placing of shares <i>(note 15(c))</i>	30,469	—	—	30,469
Placing and listing expenses	(8,883)	—	—	(8,883)
Capitalisation issue <i>(note 15(d))</i>	(1,831)	—	—	(1,831)
Contributed surplus arising on group reorganisation <i>(note (i))</i>	—	—	13,107	13,107
Loss for the year	—	(214)	—	(214)
At 31st March 2001	19,755	(214)	13,107	32,648

Note:

- (i) The contributed surplus represents the difference between the consolidated shareholders' funds of the subsidiaries and the nominal value of the company's shares issued for the acquisition at the time of the group reorganisation. Under the Companies Act 1998 of Bermuda (as amended), contributed surplus is distributable to shareholders, subject to the condition that the company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (a) it is, or would after the payment be, unable to pay its liabilities as they become due, or (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

17 Notes to the consolidated cash flow statement

(a) Reconciliation of operating loss to net cash inflow from operating activities

	Year ended 31st March 2001 HK\$'000	Period from 5th February 1999 to 31st March 2000 HK\$'000
Operating loss	(2,966)	(2,232)
Interest income	—	(77)
Interest expenses	750	348
Depreciation of fixed assets	2,928	1,707
Increase in inventories	(143)	—
Increase in accounts receivable	(481)	—
Increase in other receivables and deposits	(67)	(42)
Decrease/(increase) in amounts due from fellow subsidiaries	984	(984)
Increase in amounts due from related companies	(3,296)	—
Increase in accounts payable and accrued charges	4,065	1,413
Increase in amounts due to related companies	3,754	21
Net cash inflow from operating activities	5,528	154

Notes to the Accounts

17 Notes to the consolidated cash flow statement *(continued)*

(b) Analysis of changes in financing

	<u>Share capital including premium</u>		<u>Loans from shareholders and related companies</u>	
	Year ended 31st March 2001 HK\$'000	Period from 5th February 1999 to 31st March 2000 HK\$'000	Year ended 31st March 2001 HK\$'000	Period from 5th February 1999 to 31st March 2000 HK\$'000
At 1st April/ 5th February	200	—	15,535	—
Proceeds from issue of shares	31,407	—	—	—
Shares issued for non-cash consideration	—	200	—	—
Placing and listing expenses	(8,883)	—	—	—
Cash inflow from financing	—	—	1,388	15,535
Loan capitalisation (<i>note (c)</i>)	8,182	—	(8,182)	—
Pre-placing placement	156	—	—	—
At 31st March	31,062	200	8,741	15,535

(c) Major non-cash transactions

Pursuant to the group's Regorganisation, M21 Investment Limited ("M21 Investment"), a wholly-owned subsidiary of the company, issued 100 shares of US\$1 each to SRH and Sundowner, which were credited as fully paid by way of capitalisation of loans from these companies amounted to approximately HK\$8,182,000. Details of the transactions are summarised in note 20(ii) to the accounts.

18 Amounts due from related companies

The amounts mainly represented trading balances due from Cyberworks Audio Video Technology Limited ("CAVT") and subsidiaries of Mei Ah Entertainment Group Limited ("Mei Ah Entertainment"). Relationship between CAVT, Mei Ah Entertainment and the company is summarised in note 22 to the accounts. The amounts are unsecured, interest-free and repayable on demand.

19 Amounts due to related companies

The amounts represented the trade settlements received by and miscellaneous payments of expenses paid by subsidiaries of Mei Ah Entertainment and Silver Kent Technology Limited, the associated company of Mei Ah Entertainment, on behalf of the group. The amounts are unsecured, interest-free and repayable on demand.

20 Loans from shareholders and related companies

	2001 HK\$'000	2000 HK\$'000
Loan from a shareholder		
— Sundowner Management Limited ("Sundowner") (note 20(iii))	8,741	—
— Sino Regal Holding Limited ("SRH")	—	4,500
	8,741	4,500
Loans from related companies		
— Mei Ah Entertainment Group Limited ("Mei Ah Entertainment")	—	3,723
— Mei Ah (HK) Limited ("Mei Ah (HK)")	—	7,312
	—	11,035

The loans due to SRH and Mei Ah Entertainment as at 31st March 2000 were unsecured, interest-free and had no fixed terms of repayment. The loan due to Mei Ah (HK) as at 31st March 2000 was unsecured, bearing interest at Hong Kong dollars prime lending rate plus 1.5 per cent. and with no fixed terms of repayment.

Notes to the Accounts

20 Loans from shareholders and related companies *(continued)*

The following transactions took place during the year, pursuant to the group's Reorganisation:

- (i) On 20th March 2001, Mei Ah Entertainment and Mei Ah (HK) assigned their loans to Sundowner, a shareholder of the company and a wholly-owned subsidiary of Mei Ah Entertainment.
- (ii) On 20th March 2001, M21 Investment Limited ("M21 Investment"), a wholly-owned subsidiary of the company, issued 55 and 45 shares of US\$1 each to SRH and Sundowner respectively, which were credited as fully paid by way of capitalisation of loans from SRH and Sundowner amounted to approximately HK\$4,500,000 and HK\$3,682,000 respectively.
- (iii) On 20th March 2001, M21 Investment entered into a loan agreement with Sundowner in respect of the remaining loan balance due by M21 Investment to Sundowner (the "Loan Agreement"). Pursuant to the Loan Agreement, the remaining loan balance is unsecured, bearing interest at Hong Kong dollars prime lending rate plus 1.5 per cent. per annum and repayable on 20th March 2004. The group is given a right to repay all or part of the loan prior to the maturity date. At 31st March 2001, the remaining loan balance amounted to approximately HK\$8,741,000.

21 Commitments

Commitments under operating leases

At 31st March 2001, the group had commitments to make payments in the next twelve months under operating leases which expire as follows:

	2001		2000	
	Machinery HK\$'000	Others HK\$'000	Machinery HK\$'000	Others HK\$'000
Within one year	—	300	—	—
In the second to fifth year inclusive	600	—	—	—
	600	300	—	—

22 Related party transactions

Save as disclosed in other notes to the accounts, significant related party transactions, which were carried out in the normal course of the group's business are as follows:

	<i>Note</i>	Year ended 31st March 2001 HK\$'000	Period from 5th February 1999 to 31st March 2000 HK\$'000
Sale of stampers to Cyberworks Audio Video Technology Limited ("CAVT")	<i>(i)</i>	—	1,995
Sale of stampers and provision of pre-mastering services to Silver Kent Technology Limited ("Silver Kent")	<i>(ii)</i>	4,007	—
Provision of pre-mastering services to other related companies	<i>(iii)</i>	1,091	—
Rental expense of factory premises paid to CAVT	<i>(iv)</i>	168	177
Rental expense of machinery paid to Mei Ah Video Production Company Limited ("MAVP")	<i>(v)</i>	600	—
Interest expense paid to Mei Ah (HK) Company Limited	<i>(vi)</i>	750	335

- (i) CAVT is indirectly owned as to 55 per cent. by Sino Regal Holding Limited ("SRH") and 45 per cent. by Sundowner Management Limited ("Sundowner"). Both SRH and Sundowner are shareholders of the company. The transactions with CAVT were conducted in the normal course of business at prices and terms comparable with those charged to and contracted with independent third party customers of the group.
- (ii) Silver Kent is directly owned as to 55 per cent. by SRH and 45 per cent. by Sundowner. These transactions are conducted in the normal course of business and in accordance with the terms of a pre-mastering services and stamper supply agreement which are at prices and terms comparable with those charged to and contracted with independent third party customers of the group.

Notes to the Accounts

22 Related party transactions *(continued)*

- (iii) The compression services are rendered to several subsidiaries of Mei Ah Entertainment Group Limited ("Mei Ah Entertainment") and China Culture Media Group Company Limited (formerly known as China 10K.com Limited), an indirect associated company of Mei Ah Entertainment. Mei Ah Entertainment is the holding company of Sundowner which in turn is a shareholder of the company. These transactions are conducted in the normal course of business at prices and terms comparable with those charged to and contracted with independent third party customers of the group.
- (iv) The rental of a factory premises, which are subleased from CAVT, is determined on a cost reimbursement basis.
- (v) MAVP is a wholly-owned subsidiary of Mei Ah Entertainment. The rental is determined in accordance with the terms of the relevant rental agreement.
- (vi) Mei Ah (HK) Company Limited is a wholly-owned subsidiary of Mei Ah Entertainment. Interest is charged at Hong Kong dollars prime lending rate plus 1.5 per cent. per annum.

23 Subsequent events

Subsequent to the year end date, approximately HK\$5,000,000 was paid to Sundowner as partial settlement of the shareholder's loan due by the group to Sundowner.

24 Approval of accounts

The accounts were approved by the board of directors on 28th June 2001.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of M21 TECHNOLOGY LIMITED (“the Company”) will be held at Furama Hotel, Hong Kong, Coral Room 1, 3/F, One Connaught Road, Central, Hong Kong on Friday, 27th July 2001 at 4:00 p.m. for the following purposes:—

1. To receive and consider the audited consolidated financial statements and the reports of the directors and auditors for the period from 28th December 2000 (date of incorporation) to 31st March 2001.
2. To re-elect the retiring directors and to authorise the Board of Directors to fix the directors’ remuneration.
3. To re-appoint auditors and to authorise the Board of Directors to fix their remuneration.
4. As special business, to consider and if thought fit, pass the following resolutions as Ordinary Resolutions:—

A. “THAT

- (a) subject to paragraph A(b) below, the exercise by the directors of the Company (“the Directors”) during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase its own shares on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (“Stock Exchange”) or on any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (as amended from time to time) or of any other stock exchange, be and is hereby generally and unconditionally approved and authorised;
- (b) the aggregate nominal amount of the shares of the Company to be purchased by the Company pursuant to the approval in paragraph A(a) above during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution and the approval pursuant to paragraph A(a) shall be limited accordingly; and

Notice of Annual General Meeting

- (c) for the purpose of this Resolution, “Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the by-laws of the Company or any applicable law to be held; and
 - (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting.”

B. “THAT

- (a) subject to paragraph B(b) below, a general mandate be and is hereby unconditionally given to the directors of the Company (the “Directors”) to exercise all the powers of the Company during the Relevant Period (as hereinafter defined) to allot, issue and deal with the new shares in the capital of the Company or securities convertible into shares, or options, warrants or similar rights to subscribe for any shares, and to make and grant offers, agreements and options which would or might require the exercise of such powers, whether during the continuance of the Relevant Period or thereafter;
- (b) the aggregate nominal amount of the share capital allotted or agreed conditionally or unconditionally to be allotted or dealt with pursuant to the approval in paragraph B(a) above during the Relevant Period, otherwise than pursuant to the following, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution and the said approval shall be limited accordingly:—
 - (i) a rights issue where shares are offered for a period fixed by the Directors to shareholders on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements

as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard, as appropriate, to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or stock exchange in, or in any territory applicable to the Company);

- (ii) an issue of shares under any share option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company;
 - (iii) any scrip dividend scheme or similar arrangement implemented in accordance with the bye-laws of the Company; and
- (c) for the purpose of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable law to be held; and
 - (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting."

- C.** "THAT conditional upon Resolutions 4A and 4B being passed, the general mandate granted to the directors of the Company pursuant to Resolution 4B to exercise the powers of the Company to allot shares in the capital of the Company be and is hereby extended by the addition to the aggregate nominal amount of the share capital which may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to such general mandate an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to Resolution 4A, provided that such amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution."

On behalf of the Board

Tong Hing Chi

Chairman

Hong Kong, 28 June 2001

Notice of Annual General Meeting

Notes:

- (1) A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy need not be a member of the Company. In order to be valid, the form of proxy must be deposited with the Company's Branch Share Registrars in Hong Kong, Abacus Share Registrars Limited, 2401 Prince's Building, Central, Hong Kong together with any power of attorney or other authority, under which it is signed, or a notarially certified copy of that power or authority, not less than 48 hours before the time for holding the meeting.
- (2) The register of members of the Company will be closed from Friday, 20th July 2001 to Friday, 27th July 2001, both days inclusive, during which period no transfer of shares will be effected. All transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrars in Hong Kong, Abacus Share Registrars Limited, 2401 Prince's Building, Central, Hong Kong for registration no later than 4:00 p.m. on Thursday, 19th July 2001.
- (3) A circular containing further details regarding Resolution no. 4 as required by the GEM Listing Rules will be despatched to shareholders together with 2001 Annual Report.