

# M21 Technology Limited

(incorporated in Bermuda with limited liability)



## First Quarterly Report 2001

Quarterly ended  
30 June 2001

## **M21 TECHNOLOGY LIMITED**

Quarterly Report

For the three months ended 30th June 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 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.*

*The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.*

*This announcement, for which the directors (the “Directors”) of M21 Technology Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities (“GEM Listing Rules”) on the Growth Enterprise Market of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## M21 TECHNOLOGY LIMITED

Quarterly Report

For the three months ended 30th June 2001

The board of directors (the “Board”) of M21 Technology Limited (the “Company”) present the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months ended 30th June 2001 together with the comparative figures for the corresponding period in 2000 as follows:

		<b>For the three months ended 30th June</b>	
		<b>2001</b>	2000
	<i>Notes</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
Turnover	<i>1</i>	<b>1,910</b>	1,340
Cost of sales		<b>(1,187)</b>	(799)
Gross profit		<b>723</b>	541
General, administrative and other expenses		<b>(1,810)</b>	(807)
Loss from operations		<b>(1,087)</b>	(266)
Interest income		<b>150</b>	0
Interest expense		<b>(1)</b>	0
Loss attributable to shareholders		<b>(938)</b>	(266)
Basic loss per share	<i>3</i>	<b>(0.30 cents)</b>	(0.13 cents)

# M21 TECHNOLOGY LIMITED

Quarterly Report

For the three months ended 30th June 2001

Notes:

## 1. Basis of preparation

The principle accounting policies adopted in preparing the unaudited consolidated results conform with accounting principles generally accepted in Hong Kong and accounting standards issued by the Hong Kong Society of Accountants.

## 2. Revenue 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 recognized during the periods are as follows:

	For the three months ended 30th June	
	2001 HK\$'000	2000 HK\$'000
<b>Turnover:</b>		
Sales of stampers for audiovisual products	1,591	850
Provision of pre-mastering services	319	490
	<u>1,910</u>	<u>1,340</u>
Other revenue - interest income	150	0
Total revenues	<u>2,060</u>	<u>1,340</u>

## 3. Taxation

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profit during the three months ended 30th June 2001 (2000: Nil).

## 4. Loss per share

The calculation of basic loss per share for the three months ended 30th June 2001 was based on the Group's loss attributable to shareholders of approximately HK\$938,000 (2000: loss of HK\$266,000) and 312,500,000 (2000: the weight average of approximately 203,125,000 shares deemed to be issued during the period) ordinary shares in issue during the period.

Diluted loss per share for the three months ended 30th June 2000 and 2001 were not presented because there were no dilutive potential ordinary shares in existence during the periods.

## 5. Comparative figures

Certain comparative figures have been reclassified to conform with the current period's presentation.

## **M21 TECHNOLOGY LIMITED**

Quarterly Report

For the three months ended 30th June 2001

### **INTERIM DIVIDEND**

The Board does not recommend the payment of an interim dividend for the three months ended 30th June 2001 (2000: Nil).

### **RESERVES**

There has been no transfer to or from reserves during the three months ended 30th June 2001. (2000: Nil)

### **BUSINESS REVIEW**

For the three months ended 30th June 2001, the Group's turnover and gross profit were HK\$1,910,000 and HK\$723,000 respectively. Turnover has increased by 43% whereas the gross profit has only increased by 34%, this was mainly attributed to the expiration of warranty for most of the Group's machinery where the same was still covered under warranty and such repairs and maintenance charges could be saved in the last corresponding period.

The loss attributable to the shareholders has increased by HK\$671,000 comparing with last period, it was mainly attributed to the increment of general, administrative and other expenses in the current period by 1.2 times. Such big increment was partly resulted from the listing of Group on the GEM after March 2001 that some professional fees in regard to corporate advisory, public relations and publication matters were incurred. As the Group is still in the growing stage, the increment in such costs were inevitable and was for the long term benefit of the Group.

Despite of the fact that the Group is still sustaining loss, the directors are optimistic of the growth and profitability of the Group in the coming quarters.

## **M21 TECHNOLOGY LIMITED**

Quarterly Report

For the three months ended 30th June 2001

### **PROSPECTS**

Since the successful listing on the GEM of the Stock Exchange, the Group has been taking aggressive approaches in gearing towards profitability. The Group has set ahead various strategies in consolidating resources, strengthening management, exploring business opportunities and developing strategic alliances in core areas such as pre-mastering, mastering and iP encoder.

The Group stresses in Quality Management and has achieved internationally recognition from its core vehicle - M21 Mastertech Company Limited ("M21") with the accreditation of ISO9002:1994 in March 2000 for its DVD mastering business.

During the period under review, M21 has not only successfully transited to the new Quality system model of ISO9001:2000, but also integrated the Quality Management System to the pre-mastering production business and was affirmed the certification of ISO 9001:2000 for its outstanding production standards which also demonstrates the Group's strongest commitment in maintaining the highest quality control in our products and services. The Group will continue to enhance itself in products and services in order to satisfy our customers' needs.

In addition to the above, in 3 months time, the Group has improved the production yield of the mastering production line from 55% to 60% in this quarter and a mild increase in customers base of 3% in the period under review.

The Group has successfully carried out the piloting test of iP Encoder with some broadcasters in the PRC in April 2001 and the subsequent testings in May 2001 have proved the perfect integration of iP Encoder into the proposed network. In June 2001, stress test has been carried out in various provinces of the PRC.

## **M21 TECHNOLOGY LIMITED**

Quarterly Report

For the three months ended 30th June 2001

Though the Group is also negotiating with some other potential buyers in Hong Kong, the general climate is prudent after the Internet fall. Knowing that the broadband era is coming, most of the Internet Service Providers or Internet Content Providers are still keeping up with challenge, and by the end of June, there are more entrants from abroad into the encoder supplier market. The Group shall expect increase in competition of the supply of audiovisual encoder, which also signifies the rapid growth of the user market.

The Group believes that the reinforcement of master production line registration proposed by the Customs and Excise Department of Hong Kong will benefit to the mastering industry as a whole. The Directors of the Group will keep on monitoring the progress and do their best endeavour to ensure the Group complies with any such requirements.

## **DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES**

As at 30th June 2001, the following directors of the Company had or were deemed to have interests in the equity securities of the Company within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), as recorded in the register kept by the Company pursuant to Section 29 of the SDI Ordinance or which required, pursuant to rules 5.40 to 5.59 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") to be notified to the Company and The Stock Exchange of Hong Kong Limited were as follows:

## M21 TECHNOLOGY LIMITED

Quarterly Report

For the three months ended 30th June 2001

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

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

\* Shares held in corporate interest represent those shares beneficially owned by a company in which the relevant director was deemed to be entitled under the SDI Ordinance to exercise or control the exercise of one third or more of the voting power at its general meeting.

*Note:*

- (a) 111,718,750 shares are held by Sino Regal Holding Limited, a private company incorporated in the British Virgin Islands in which Mr. Law Kwok Leung has an equity interest of 70%

Save as disclosed above, as at 30th June 2001, neither the directors nor their associates, had any interests in any equity securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

### SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 16(1) of the Securities (Disclosure of Interests) Ordinance shows that as at 30th June 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.



## M21 TECHNOLOGY LIMITED

Quarterly Report

For the three months ended 30th June 2001

Name of shareholders	Number of shares	Percentage of share capital (%)
Sino Regal Holding Limited (“SRH”)	111,718,750	35.75
Sundowner Management Limited (“Sundowner”)	91,406,250	29.25
Mei Ah (China) Company Limited (note a)	91,406,250	29.25
Mei Ah Video Production Co. Ltd. (“MAVP”) (note b)	91,406,250	29.25
Mei Ah Holdings Limited (note c)	91,406,250	29.25
Mei Ah Entertainment Group Limited (note d) 91	91,406,250	29.25
Kuo Hsing Holdings Limited (note e)	91,406,250	29.25
Li Kuo Hsing (note f)	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 June 2001, Kuo Hsing Holdings Limited is interested in approximately 54.55 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.

## **M21 TECHNOLOGY LIMITED**

Quarterly Report

For the three months ended 30th June 2001

Save as disclosed above, the Company had no notice of any interests to be recorded under Section 16(1) of the SDI Ordinance as at 30th June 2001.

### **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

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.

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.

### **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

The Company has not redeemed any of its listed securities during the three months ended 30th June 2001. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the three months ended 30th June 2001.

## **M21 TECHNOLOGY LIMITED**

Quarterly Report

For the three months ended 30th June 2001

### **SPONSOR'S INTEREST**

The Company's sponsor, Shenyin Wanguo Capital (H.K.) Limited (as referred to Note 3 to Rule 6.35 of the GEM Listing Rule) ("Shenyin") was interested in 100,000 shares in the Company as at 30th June 2001 which was acquired on 30th March 2001 in the course of underwriting the placement of the Company's Share on the GEM.

Save as disclosed above, none of the Sponsors, its directors, employees and associates (as referred to Note 3 to Rule 6.35 of the GEM Listing Rules) of Shenyin had any beneficial interests in the Company's Shares as at 30th June 2001.

Pursuant to the agreement dated 1st November, 2000 entered into between the Company and Shenyin, Shenyin has received and will receive a fee for acting as the Company's retained sponsor for two financial years.

### **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.

### **AUDIT COMMITTEE**

In compliance with Rule 5.23 of the GEM Listing Rules, the Company has established an audit committee comprising two independent non-executive directors and has adopted the terms of reference governing the authority and duties of the audit committee. The present members of the audit committee are Mr. Sousa Richard Alvaro and Mr. Carl Chang.

By Order of the Board

**Tong Hing Chi**

*Chairman*

Hong Kong, 8th August 2001