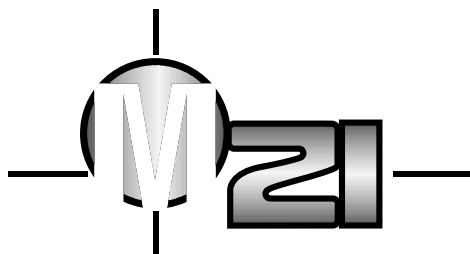


M21 Technology Limited

(Incorporated in Bermuda with limited liability)



Second Quarterly Report 2001

Quarterly ended
30 September 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.

RESULTS

The board of directors (the “Board”) of M21 Technology Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the periods of three months and six months ended 30th September 2001, together with the comparative figures for the corresponding period in 2000 as follows:

	<i>Notes</i>	Three months ended 30th September		Six months ended 30th September	
		2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Turnover	2	1,718	1,605	3,628	2,945
Cost of sales		<u>(1,550)</u>	<u>(1,073)</u>	<u>(2,737)</u>	<u>(1,872)</u>
Gross profit		168	532	891	1,073
Other revenue	2	76	—	226	—
General, administrative and other expenses		<u>(1,350)</u>	<u>(839)</u>	<u>(3,160)</u>	<u>(1,646)</u>
Operating loss		(1,106)	(307)	(2,043)	(573)
Finance costs		<u>(2)</u>	<u>(384)</u>	<u>(3)</u>	<u>(384)</u>
Loss attributable to shareholders		<u>(1,108)</u>	<u>(691)</u>	<u>(2,046)</u>	<u>(957)</u>
Basic loss per share	4	<u>(0.35 cents)</u>	<u>(0.34 cents)</u>	<u>(0.65 cents)</u>	<u>(0.47 cents)</u>

Notes:

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 Company Act 1981 of Bermuda (as amended).
- (b) On 20th March 2001, pursuant to a group 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 became the holding company of the Group. The shares of the Company were listed on the GEM on 30th March 2001.
- (c) The results of the Group comprise the results of the Company and its subsidiaries using the merger accounting basis as if the Company had always been the holding company of the Group.
- (d) 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.

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 three months and six months ended 30th September 2001 are as follows:

	For the three months ended 30th September		For the six months ended 30th September	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Turnover				
Sales of stampers for audiovisual products	1,348	1,133	2,939	1,983
Provision of pre-mastering services	370	472	689	962
	<u>1,718</u>	<u>1,605</u>	<u>3,628</u>	<u>2,945</u>
Other revenue — interest income	76	—	226	—
Total revenues	<u>1,794</u>	<u>1,605</u>	<u>3,854</u>	<u>2,945</u>

3. Taxation

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

4. Loss per share

The calculation of the basic loss per share for the three months and six months ended 30th September 2001 is based on the respective unaudited consolidated loss attributable to shareholders of HK\$1,108,000 and HK\$2,046,000 (2000: HK\$691,000 and HK\$957,000) and the weighted average number of 312,500,000 (2000: 203,125,000) ordinary shares deemed issued during the periods. In determining the weighted average number of shares deemed to be issued for the periods, the 20,000,000 shares issued before the capitalisation issue and the capitalisation issue of 183,125,000 shares were deemed to have been issued throughout the accounting periods presented.

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

INTERIM DIVIDEND

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

RESERVES

Movements in reserves during the periods are as follows:

	2001 HK\$'000	2000 HK\$'000
Share premium as at 1st April and carried forward to 30th June	27,937	—
Listing expenses	(154)	—
Share premium as at 30th September	<u>27,783</u>	<u>—</u>

BUSINESS REVIEW

For the half-year ended 30th September 2001, income from pre-mastering services accounted for approximately 19% (2000 : 33%) of the Group's turnover whilst income from mastering services accounted for 81% (2000 : 67%) of the Group's turnover. Most of the Group's sales during the period was derived from Hong Kong, accounting for approximately 88.5% of the Group's sales, whilst the remaining of 11.5% was derived from India, Thailand and PRC.

The Group has generated a gross profit of approximately HK\$ 891,103 (2000: HK\$ 1,073,306) out of total turnover of approximately HK\$3,628,247 (2000: HK\$ 2,944,666) for the half-year ended 30th September 2001. Although turnover increased by 23% compared to the corresponding period last year, the gross profit margin experienced a decline from 36% to 25% as a result of the unit price drop during the period under review.

The increase in turnover was attributable to the increase in customer base and production efficiency in the first half of the year 2001. The proportion of business relying from our single large customer has been reduced to 56% due to the growth in other segments. The maximum daily production capacity of the mastering line increased from 38% as at 30th September 2000 to nearly a double by the end of September 2001.

Nevertheless, the loss attributable to the shareholders has increased by HK\$1,089,126 comparing with the same period last year, it was mainly attributed to the increment of general, administrative and other expenses in the period under review by nearly a double. Such big increment was partly resulted from the listing of Group on the GEM after March 2001 that some listing fees and 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.

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.

Following the entry of the PRC into the World Trade Organisation, it is expected that the optical disc market will be opened up. Therefore the Group expects the whole optical disc market will be exposed to significant adjustments and opportunities which in turn benefits to the pre-mastering and mastering industries.

Apart from the MPEG-1 and MPEG-2 pre-mastering service, the Group has also launched the MPEG-4 encoding service in August 2001 for high quality broadband video of one of the largest broadband content providers in Hong Kong. The Group believes that with the open up of broader bandwidth, more and more audiovisual content will be able to deliver high display quality content to end users, thus creates potential demand for compression equipment that possesses real time encoding and webcasting functions.

During the period under review, the Group has been working closely with some broadcasters in the PRC in fine-tuning the iP Encoder in their proposed network. The Group is fully aware that there are new entrants offering MPEG encoding solutions over Internet Protocol, and the Group is positioning carefully to sustain competitiveness before the market reaches its maturity.

The Group believes that the reinforcement of master production line registration proposed by the Customs and Excise Department of Hong Kong will help to deter illegal stamper manufacturers and in turn benefits 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.

Though the economic climate is prudent especially after the incident of September 11, it is a challenge to the Group to sustain high growth. Thus, the Group will continue its efforts towards new achievements and will consider exploring new business sectors for product/service development, so as to maintain business growth.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 30th September 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 were as follows:

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 September 2001, none of the directors or chief executives of the Company had any interests in any equity securities and debt 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 September 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 (%)
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 September 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.

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 September 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.

Save as disclosed above, none of the directors or chief executives of the Company (or their spouse or children under 18 years of age) had any right to subscribe for any equity or debt securities of the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

SPONSOR’S INTEREST

The Company’s sponsor, Shenyin Wanguo Capital (H.K.) Limited and its associates (as referred to Note 3 to Rule 6.35 of the GEM Listing Rule) (“Shenyin”) had no interest in the shares of the Company as at 30th September 2001.

Save as disclosed above, none of the 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 September 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 November 2001