M21 Technology Limited
智庫科技有限公司

Incorporated in Bermuda with limited liability 於百慕達註冊成立之有限公司

Annual Report 2002 年報

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.

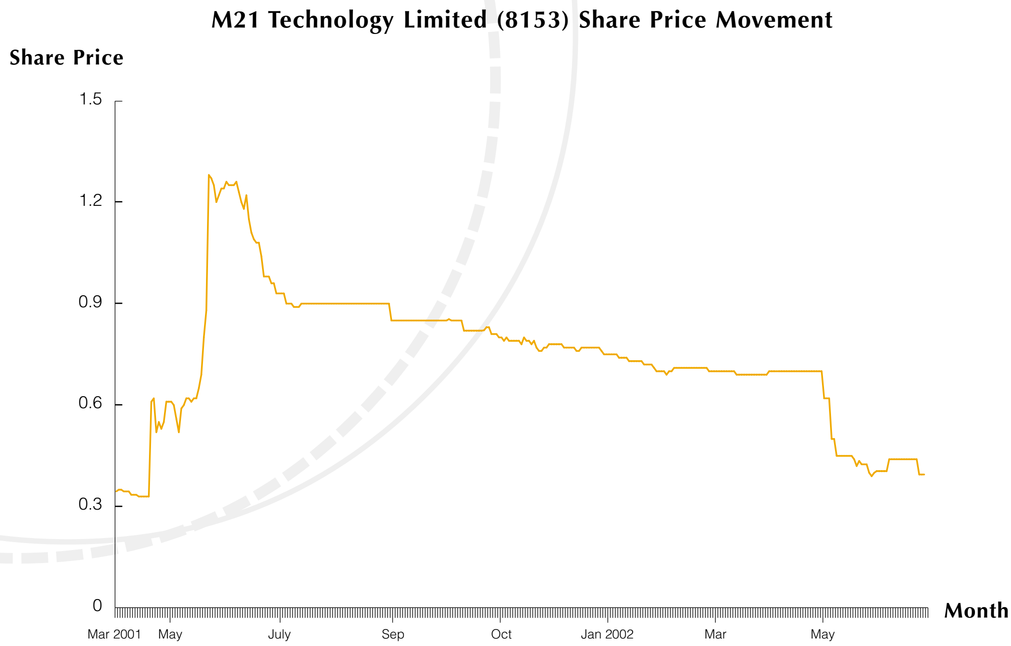
Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on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

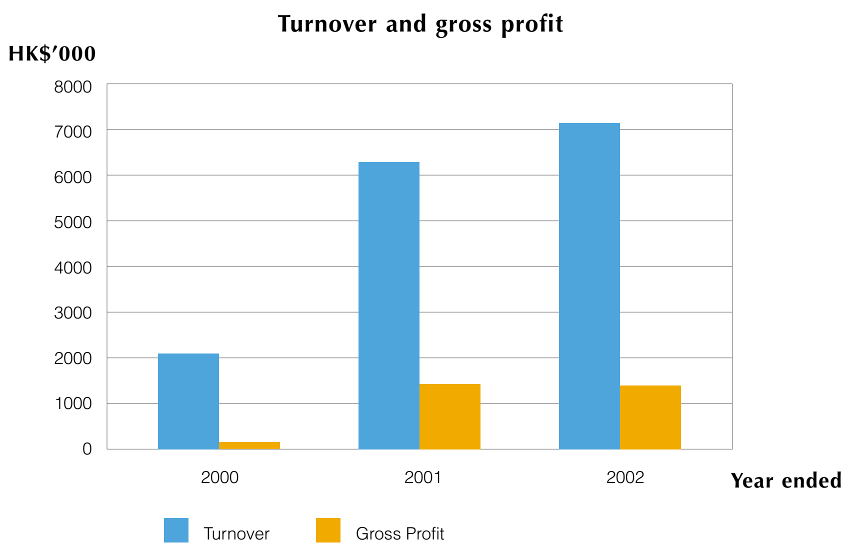
CONTENTS

HIGHLIGHTS FOR THE YEAR

1. SHARE PRICE MOVEMENT 2001/2002



2. INCREASE IN TURNOVER & SUSTAIN IN GROSS PROFIT MARGIN



3. INTEGRATION OF AUDIOVISUAL EQUIPMENT AT WORK

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Director

Mr. Chan Kwok Sun, Dennis

Independent Non-Executive Directors

Mr. Chang Carl
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. Chang Carl

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

G/F., Mei Ah Centre
28 Chun Choi Street
Tseung Kwan O Industrial Estate
Kowloon, Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) 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
5th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

SPONSOR

Shenyin Wanguo Capital (H.K.) Limited

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants, Hong Kong

LEGAL ADVISERS

As to Bermuda Law:

Conyers Dill & Pearman

As to Hong Kong Law:

Baker & Mckenzie

STOCK CODE

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 second annual report of the Group since the listing of the Company's shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 30th March 2001.

GROUP RESULTS

During the year under review, the Group has achieved approximately 15% growth in turnover compared to the year ended 31st March 2001.

For the year ended 31st March 2002, income from pre-mastering services accounted for approximately 22% (2001: 29%) of the Group's turnover whilst income from mastering services accounted for approximately 78% (2001: 71%) of the Group's turnover. Most of the Group's sales during the year was derived from Hong Kong and the People's Republic of China (the "PRC"), accounting for approximately 88% of the Group's sales, whilst the remaining 12% was derived from India and Thailand.

The Group has generated a gross profit of HK$1,365,000 (2001: HK$1,393,000) out of total turnover of HK$7,154,000 (2001: HK$6,244,000) for year ended 31st March 2002. Although turnover increased by approximately 15% compared to last year, the gross profit margin experienced a decline from 22% to 19%.

The decline in gross profit margin was mainly attributed to the decrease in selling price of stampers and the increase in repairs and maintenance charges upon the expiration of warranty for most of the Group's machinery for year ended 31st March 2002. Such repairs and maintenance charges were saved in the prior year as the machinery were still within the warranty period.

The increase in turnover was attributable to the increase in customer base and production efficiency during the year, though the mastering business during the year under review has been slightly interrupted by the removal of our manufacturing base to the new site in Tseung Kwan O Industrial Estate. Due to the increase in general sales during the year, our customer base was enlarged. The proportion of our sales relying on our largest customer has been decreased from 53% to 38%. The maximum daily production capacity of the mastering line stayed at about 70% with consistent performance.

Nevertheless, the loss attributable to the shareholders has increased by HK$2,819,000 as compared with last year. The increase in loss was mainly attributed to the increment of general, administrative and other expenses during the year. Such big increment was partly resulted from the listing of the Group on the GEM of the Stock Exchange after March 2001 that some post listing fees and professional fees of approximately HK$1.3 million in regard to corporate advisory, public relations and publication matters were incurred. The Group has also fully written off the leasehold improvements amounting to HK$1.2 million due to the removal of premises. As the Group is still in its growing stage, the increment in such costs was 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 year.

DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31st March 2002.

BUSINESS REVIEW

The Group is principally engaged in the provision of pre-mastering and mastering services, and has been taking aggressive approaches in gearing towards profitability since its successful listing on the GEM of the Stock Exchange. The Group has been continuing its efforts towards resource consolidation, strengthening management and exploring new business opportunities for the development in our core areas such as pre-mastering, mastering and audiovisual technology, so as to maintain business growth.

The Group has achieved international quality recognition from its core vehicle — M21 Mastertech Company Limited ("M21"), which has not only successfully transited to the new ISO9001:2000 for its mastering business in May 2001, but also extended the ISO accreditation to its pre-mastering production business, which 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.

By the end of December 2001, the stamper manufacturing base has started moving to the new site in Tseung Kwan O Industrial Estate, in where all facilities are specially designed and built for stamper-making purpose with plenty of room to expand. Though the business operation has been interrupted for over 3 weeks because of the removal, the Group expects that the new environment will enable the full optimization on both the productivity and product quality of the stamper.

The Group believes that the reinforcement on registration of stamper production line proposed by the Customs and Excise Department of Hong Kong will benefit to the mastering industry as a whole. The reinforcement is expected be carried out in the next fiscal year. The directors of the Group will keep on monitoring the progress and endeavour to ensure the Group complies with any of such requirements.

Apart from the MPEG-1 and MPEG-2 pre-mastering services, the Group has also launched the MPEG-4 encoding service in August 2001 to deliver high quality broadband video to one of the largest broadband content providers in Hong Kong. The Group believes that the broaden up of bandwidth will enable the delivery of more and more high quality audiovisual content to end users, thus creates potential demand for real time encoding and webcasting services.

In April 2001, the Group has successfully carried out the piloting test of Internet protocol encoder ("iP Encoder") with some broadcasters in the PRC, and the subsequent testing in May 2001 have proved the perfect integration of iP Encoder into the proposed network. Through an independent third party the Group had entered into a Sale and Purchase Agreement with a buyer in the PRC and received deposit of HK$1.1 million in May 2001. Due to circumstances beyond our buyer's control, the buyer failed to comply with the terms of the Sale and Purchase Agreement, and the deposit was thus forfeited for the year ended 31st March 2002.

CHAIRMAN'S STATEMENT

BUSINESS PURSUITS/PROSPECTS

Though the general climate is prudent after the Internet fall, there are more entrants from abroad into the encoder supplier market. The Group shall expect increase in competition of the supply of audiovisual encoder, and thus will consolidate its resources in the MPEG encoding solutions into the media services. The Group believes that focusing on our core business on audiovisual technology is an important mean to sustain high growth and to pursue the Group's product/service development strategy as a whole.

Due to the poor economy, in particular after the terrorist attack in The United States of America on 11th September 2001, and unfavourable business environment for telecommunication operators, the performance of the Group's existing businesses for the year 2002 was below expectation. Internet Content Providers (ICPs) and Internet Service Providers (ISPs), which are the major potential customers of the Group's webcasting services, were also adversely affected by the poor economic and business environment which consequently reduced the demand for webcasting services. Closures and consolidations of the telecommunication and Internet service operators were resulted. The surviving operators are long term investors with strong financial background and solid experiences who grasp the business opportunities when the global economy recovers. Thus, the directors believe that in the long term the telecommunication and Internet services industry will revive and the demand for high quality pre-mastering, mastering, webcasting and media services will increase significantly.

Although the Group's pre-mastering and mastering businesses are affected by the present unfavourable business environment as stated above, the directors believe that there will be tremendous business opportunities in pre-mastering, mastering, webcasting and media services for the Group in the future. In addition, the directors are of the view that it is a good opportunity for the Group to consolidate and enhance its business and asset base during a economic recession that will generate promising returns to the Group in the future. The Group believes that the convergence of current business pursuit will open up channels to various types of business opportunities and enable the use of the current resources more efficiently and effectively.

Due to the reasons as aforementioned, the Group has started negotiation with the PowerTV since September 2001 and entered into a Sale and Purchase Agreement in February 2002 to acquire a batch of digitised equipment at a consideration of HK$9.5 million. The deal enables the Group to extend its pre-mastering arm into a digitised platform with post-production facilities that cater for business development in areas of audiovisual contents transmission.

The digitised platform enables the integration of other audiovisual equipment that are compatible with digital signals. Our compression algorithm and transmission technology of the iP encoder can further enhance the platform by allowing transmission of high quality audiovisual content over the Internet or 3G network.

The target customers for the enhanced digitised platform include broadband operators, video producers and distributors, film makers, terrestrial, cable and satellite TV broadcasters mainly located in Hong Kong. The Group has already received enquiries regarding webcasting services. The directors believe that there will be tremendous potential demand for webcasting services with these prospective customers.

Capitalising on its expertise and experience in pre-mastering, mastering and webcasting operations, the equipment allows the Group to establish a digitised platform which provides new sources of income and to pursue the Group's development strategy on webcasting business. The Group intends to install the equipment in Tseung Kwan O which is to be completed in April 2002. Once installed, the equipment is ready to bring in immediate returns to the Group by servicing in pre-mastering and webcasting functions.

Since the economic condition has been worsening globally after the 11th September attack, the Group has exercised additional care and even more selectively made new investments. Though the Group has been negotiating the CD/VCD/DVD/recordable DVD mastering equipment since the second quarter of last year, the demand of DVD-R mastering production in Hong Kong was far below the directors' expectation. The directors thus decided to defer the installation of the mastering equipment.

Further, most of the telecommunication operators have become more prudent in investing huge amount of capital for the construction of 3G network which hindered the growth of the industry. The Group will defer the research on 3G until the market becomes more promising.

Similar action applies to the non-cash making or long-term investment activities such as the research and development projects with Hong Kong University of Science and Technology and Greenwich University in respect of the MPEG-4 and MPEG-7 compliant compression algorithm. The Memorandums of Understandings (MOUs) entered between the Group and these 2 universities remain non-legal binding, no agreement has been drawn. The Group has discussed with both universities about the suspension of such research projects until the economic situation becomes more visionable. Such suspensions reduce the capital outlay without immediate economic benefits and the corresponding expected income streams. However, the directors expect income from the new businesses rendered by the equipment will compensate for such loss of income.

CHANGE OF APPLICATION OF PLACING PROCEEDS

According to the Group's original business plan the total of HK$20 million out of the placing proceeds would be invested in the above research projects. Due to the suspension of research projects mentioned above, the placing proceeds were then used for acquiring a batch of digitised equipment from the PowerTV at a consideration of HK$9.5 million. The directors and the independent non-executive directors will closely monitor the timing for re-commencing the projects, the costs for the acquisition of the CD/VCD/DVD/recordable DVD mastering equipment and the research in respect of the MPEG-4 and MPEG-7 compliant compression algorithm.

CHAIRMAN'S STATEMENT

The directors believe that, given the digitised equipment strengthens the pre-mastering function and vertically extends the Group's business into post-production functions, the PowerTV deal will help the Group to pursue its business objectives to become a leader in the provision of pre-mastering and mastering services in Hong Kong. The directors are of the view that it is a good opportunity to consolidate and enhance its business and asset base during an economic recession that will generate promising returns in the future.

LIQUIDITY, FINANCE RESOURCES AND CAPITAL STRUCTURE

The Group generally financed its operations and investing activities with internally generated cash flows, balance of proceeds from Initial Public Offering ("IPO") and loan from shareholder of the Group. During the year, the Group had not issued any new shares. As at 31st March 2002, the Group had total assets of HK$24,653,000 which were financed by current liabilities of HK$1,934,000, loan from a shareholder of HK$2,991,000 and shareholders' funds of HK$19,728,000.

The net cash balance of the Group as at 31st March 2002 was HK$1,397,000. The current ratio of the Group was approximately 3.3:1. Therefore the directors believe that the Group has a healthy working capital ratio.

The gearing ratio of the Group was 15% which was computed by dividing the loan capital by the total equity share capital and reserves. Therefore, the directors believe that the level of gearing and the financial costs was within an optimum level.

EMPLOYEE INFORMATION

As at 31st March 2002, The Group had 13 full-time employees. Employee costs for the year, excluding directors' emoluments, totalled HK$2,558,000 (2001 : HK$1,711,000). All of the Group companies are equal opportunity employers, with the selection and promotion of individuals being based on suitability for the position offered. The salary and benefit levels of the Group's employees are kept at a competitive level and employees are rewarded on a performance related basis with a general framework of the Group's salary and bonus system which is reviewed annually. A wide range of benefits, including medical coverage, provident funds, and retirement plans, and long service awards are also provided to employees. In addition, training and development programmes are provided on an ongoing basis throughout the Group. The Group has not exercised any employee share option scheme at the moment.

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 and devotion to the Group throughout the years.

Tong Hing Chi
Chairman

Hong Kong, 28th June 2002

MANAGEMENT PROFILE

EXECUTIVE DIRECTORS

Mr. TONG Hing Chi, aged 47, is the Chairman and Managing Director of the Group. Mr. Tong has over 14 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 and non-executive director of New Spring Holdings Limited, both companies are listed on the main board of the Stock Exchange. Mr. Tong joined the Group in February 1999.

Mr. LAW Kwok Leung, aged 41, 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 from the University of London and a Master's degree in Business Administration from the University of Greenwich. 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 17 years of experience in the advanced technology. Mr. Law joined the Group in February 1999.

Dr. HAU Sek Ki, aged 41, 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 manufacturer of advanced glass mastering systems.

NON-EXECUTIVE DIRECTOR

Mr. CHAN Kwok Sun, Dennis, aged 52, 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 an non-executive director on 30th January 2001.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. SOUSA Richard Alvaro, aged 41, 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. CHANG Carl, aged 45, 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 the GEM. Mr. Chang was appointed as an independent non-executive director on 19th March 2001.

MANAGEMENT PROFILE

SENIOR MANAGEMENT

Mr. LAI Siu Chung, aged 34, 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 eight years' accounting experience in different industries. Mr. Lai joined the Group in September 2000.

Mr. LAM King Pui, aged 36, 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 28, 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.

Mr. XING Yi Zhi, aged 39, is the Production Manager of the Group. Mr. Xing is responsible for the supervision of the stamper production and overseeing the smooth running of the production process flow. Mr. Xing holds a degree from 中國人民解放軍空軍導彈學院(University of Air Force Missile P.I.A.). Before he joined the Group in July 2001, Mr. Xing has possessed over 6 years experience in stamper production, servicing and management.

REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts for the year ended 31st March 2002.

PRINCIPAL ACTIVITY 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 performance for the year by business and geographical segments is set out in note 2 to the accounts.

RESULTS AND APPROPRIATIONS

The results for the year are set out in the consolidated profit and loss account on page 21.

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 20 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 18 to the accounts.

DISTRIBUTABLE RESERVES

As at 31st March 2002, the Company had no distributable reserves available for distribution to shareholders of the Company.

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.

FINANCIAL SUMMARY

The summary of the published results and of the assets and liabilities of the Group for the financial years since the date of incorporation of the Company is set out on page 49.

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

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.

SHARE OPTION SCHEME

Pursuant to the written resolutions of the shareholders of the Company dated 20th March 2001, a Share Option Scheme (the "Share Option Scheme") was adopted by the Company. Details of the Share Option Scheme are as follows:

(a) Purpose of the Share Option Scheme

The purposes of the Share Option Scheme are to recognise the contribution made by the executive directors and the employees of the Group and to retain the services of the employees who will make valuable contribution to the Company.

(b) Participants of the Share Option Scheme

Pursuant to the Share Option Scheme, the Company may offer to grant share options ("Options") to any full-time employees (the "Employee"), including any executive director of the Group, to subscribe for shares in the Company.

(c) Maximum number of shares available for issue under the Share Option Scheme

Under the Share Option Scheme approved by the shareholders, the directors of the Company may, at its discretion, invite Employee including any executive directors of the Group 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.

(d) Maximum entitlement of each participant

No Employee shall be granted an Option which, if exercised in full, would result in such Employee's maximum entitlement exceeding 25% of the aggregate number of shares of the Company for the time being issued and issuable under the Share Option Scheme.

(e) Exercisable period of Options

Pursuant to the Share Option Scheme, an Option may be exercised in whole or in part in the manner provided in the Share Option Scheme by a grantee giving notice in writing to the Company at any time during a period commencing one year after the date of grant of the Option, to be notified by the Board of the Company to the grantee, which shall be not less than 3 years nor more than 10 years from the date an Option is offered (the "Offer Date").

(f) Payment on acceptance of Option offer

Pursuant to the Share Option Scheme, a sum of HK$1.00 is payable by the Employee on acceptance of the Option offer.

(g) Basis of determining the subscription price

The subscription price for the shares in relation to Options to be granted under the Share Option Scheme shall be determined by the Board and notified to an Employee and shall be at least the highest of:

(i) the closing price of the shares as stated in The Stock Exchange of Hong Kong Limited (the "Stock Exchange")'s daily quotation sheet on the Offer Date;

(ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date; and

(iii) the nominal value of the shares of the Company.

(h) Remaining life of the Share Option Scheme

The Scheme will be valid and effective for a period of ten years from the date of adoption of the Share Option Scheme.

The Share Option Scheme will remain valid until 19th March 2011.

No share options were granted under the Share Option Scheme since its adoption on 20th March 2001.

DIRECTORS

The directors during the year were:

Executive directors

Mr. LAW Kwok Leung
Mr. TONG Hing Chi
Dr. HAU Sek Ki

Non-executive director

Mr. CHAN Kwok Sun, Dennis

Independent non-executive directors

Mr. CHANG Carl
Mr. SOUSA Richard Alvaro

There being no provision in the Company's Articles of Association for retirement by rotation, all 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 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.

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).

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.

Pursuant to the written resolutions of the Company dated 20th March 2001, the Share Option Scheme was adopted by the Company. No Options were granted to any directors under the Share Option Scheme since its adoption.

Save as aforesaid, at no time during the year was the Company, its subsidiaries or its 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out on pages 9 to 10.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

At 31st March 2002, the interests of the directors and chief executives 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 SDI Ordinance or as notified to the Company were as follows:

ORDINARY SHARES OF HK$0.01 EACH IN M21 TECHNOLOGY LIMITED

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

Note:

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

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that as at 31st March 2002, 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 executives.

Name of shareholders	**Number of shares**	**Percentage of share capital (%)**
SRH	111,718,750	35.75
Sundowner Management Limited ("Sundowner")	91,406,250	29.25
Mei Ah (China) Company Limited ("Mei Ah China") *(note (a))*	91,406,250	29.25
Mei Ah Video Production Company Limited ("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))	91,406,250	29.25
Kuo Hsing Holdings Limited *(note (e))*	91,406,250	29.25
Mr. Li Kuo Hsing *(note (f))*	91,406,250	29.25

Notes:

(a) Sundowner is a wholly-owned subsidiary of 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 31st March 2002, Kuo Hsing Holdings Limited is interested in approximately 55.9 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.

CONNECTED TRANSACTIONS

Related party transactions, which also constitute connected transactions under the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of the Stock Exchange ("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 as 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 SRH and 45 per cent. owned by 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 as a pre-mastering service provider of MAVP, which is an indirect wholly-owned subsidiary of 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;

(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 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 repay 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 Hong Kong prime lending rate plus 1.5 per cent..

At 31st March 2002, the remaining loan balance amounted to approximately HK$2,991,000.

(v) rental expense of factory premise of approximately HK$126,000 was paid to Cyberworks Audio Video Technology Limited ("CAVT") and the underlying expense is determined on a cost reimbursement basis. CAVT is indirectly owned as to 55 per cent. by SRH and 45 per cent. by Sundowner. Both SRH and Sundowner are substantial shareholders of the Company.

At 31st March 2002, rental expense of factory premise of HK$126,000 was paid to CAVT for a period from 1st April to 31st December 2001.

(vi) pursuant to the rental agreement dated 1st January 2002, factory premise was leased from Mei Ah Investment Company Limited ("MAI"), an indirect wholly-owned subsidiary of Mei Ah Entertainment, for a period from 1st January 2002 to 31st December 2004.

At 31st March 2002, rental expense of factory premise of HK$69,000 was paid to MAI for a period from 1st January to 31st March of 2002.

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.

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:

	2002	2001
Purchases		
— the largest supplier	**29%**	28%
— five largest suppliers combined	**56%**	75%
Sales		
— the largest customer	**38%**	53%
— five largest customers combined	**84%**	66%

As at 31st March 2002, 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 the Board Practices and Procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group's audit. It also reviews and supervises the effectiveness both of the external and internal audit and of internal controls and risk evaluation. The Committee comprises two independent non-executive directors, namely Mr. Sousa Richard Alvaro and Mr. Carl Chang. Two meetings were held during the current financial year.

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.

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 2002

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

AUDITORS' REPORT TO THE SHAREHOLDERS OF
M21 TECHNOLOGY LIMITED
(incorporated in Bermuda with limited liability)

We have audited the accounts on pages 21 to 48 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors of the Company 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 circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the 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 of the Group as at 31st March 2002 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 2002

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st March 2002

	Note	2002	2001
		HK$'000	*HK$'000*
Turnover	*2*	**7,154**	6,244
Cost of sales		**(5,789)**	(4,851)
Gross profit		**1,365**	1,393
Other revenues	*2*	**363**	—
Forfeiture of trade deposits	*3(a)*	**1,100**	—
Commission expense	*3(b)*	**(500)**	—
General, administrative and other expenses		**(7,860)**	(3,609)
Operating loss	*4*	**(5,532)**	(2,216)
Finance costs	*5*	**(253)**	(750)
Loss attributable to shareholders	*7*	**(5,785)**	(2,966)
Basic loss per share	*9*	**(1.85 cents)**	(1.45 cents)

The Group 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 2002

	Note	**2002**	2001
		HK$'000	*HK$'000*
Fixed assets	*12*	**18,353**	10,852
Current assets			
Inventories	*14*	**206**	143
Accounts receivable	*15(a)*	**779**	481
Other receivables and deposits	*15(b)*	**1,558**	109
Amounts due from related companies	*16*	**2,360**	3,299
Bank balances and cash		**1,397**	28,777
		6,300	32,809
Current liabilities			
Accounts payable	*17*	**364**	147
Other payables and accrued charges		**1,570**	5,331
Amounts due to related companies		**—**	3,775
		1,934	9,253
Net current assets		**4,366**	23,556
		22,719	34,408
Financed by:			
Share capital	*18*	**3,125**	3,125
Reserves	*20*	**16,603**	22,542
Shareholders' funds		**19,728**	25,667
Loan from a shareholder	*22*	**2,991**	8,741
		22,719	34,408

On behalf of the Board

Tong Hing Chi
Director

Law Kwok Leung
Director

BALANCE SHEET

As at 31st March 2002

	Note	**2002**	2001
		HK$'000	*HK$'000*
Investment in a subsidiary	*13*	**22,682**	35,914
Current assets			
Accounts receivable	*15(a)*	**4**	4
Bank balances and cash		**193**	55
		197	59
Current liabilities			
Other payables and accrued charges		**160**	200
Net current assets/(liabilities)		**37**	(141)
		22,719	35,773
Financed by:			
Share capital	*18*	**3,125**	3,125
Reserves	*20*	**19,594**	32,648
Shareholders' funds		**22,719**	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 2002

	Note	2002 HK$'000	2001 HK$'000
Net cash (outflow)/inflow from operating activities	21(a)	**(9,718)**	5,528
Returns on investments and servicing of finance			
Interest received		**240**	—
Interest paid		**(3)**	(750)
Net cash inflow/(outflow) from returns on investments and servicing of finance		**237**	(750)
Investing activities			
Purchase of fixed assets		**(11,745)**	(44)
Net cash outflow from investing activities		**(11,745)**	(44)
Net cash (outflow)/inflow before financing		**(21,226)**	4,734
Financing	21(b)		
Net proceeds from issue of shares		**—**	22,680
Listing expenses paid		**(154)**	—
Loan from a shareholder repaid		**(6,000)**	—
Loans from related companies borrowed		**—**	1,388
Net cash (outflow)/inflow from financing		**(6,154)**	24,068
(Decrease)/increase in cash and cash equivalents		**(27,380)**	28,802
Cash and cash equivalents at 1st April		**28,777**	(25)
Cash and cash equivalents at 31st March		**1,397**	28,777
Analysis of balances of cash and cash equivalents			
Bank balances and cash		**1,397**	28,777

1 *PRINCIPAL ACCOUNTING POLICIES*

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

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). The accounts are prepared under the historical cost convention.

In the current year, the Group has adopted the new or revised Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2001. The adoption of these new SSAPs had no material effect on the Group's results. Certain comparative figures have been reclassified to conform with the current year's presentation.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st March. Subsidiaries are companies in which the Group controls more than half of the voting power or holds more than half of the issued share capital or controls the composition of the board of directors.

The result of 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.

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

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or negative goodwill which was not previously charged or recognised in the consolidated profit and loss account.

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

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

1 *PRINCIPAL ACCOUNTING POLICIES* *(Continued)*

(c) Fixed assets

Fixed assets, comprising leasehold improvements, plant and machinery and furniture, fixtures and equipment, are stated at cost less accumulated depreciation and accumulated impairment losses. Fixed assets are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

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

Improvements are capitalised and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

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.

(d) 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.

(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.

(f) 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 raw materials. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(g) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprises cash on hand and deposits held at call with banks.

1 *PRINCIPAL ACCOUNTING POLICIES* *(Continued)*

(h) Deferred taxation

Deferred taxation is accounted for at the current taxation 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.

(i) Retirement benefit costs

The Group contributes to a defined contribution retirement scheme which is available to all employees. Contributions to the scheme by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the profit and loss account represents contributions payable by the Company to the fund.

The Group's contributions to the defined contribution retirement scheme are expensed 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.

(j) Research and development costs

Research and development costs are expensed as incurred, except for development costs where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. During the year, all the research and development costs have been expensed.

(k) 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.

1 ***PRINCIPAL ACCOUNTING POLICIES*** *(Continued)*

(l) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction 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.

(m) Borrowing costs

During the year, no borrowing costs are directly attributable to the acquisition of an asset. All the borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(n) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets (note 12).

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

2 *TURNOVER, REVENUE AND SEGMENT INFORMATION*

The Group is principally engaged in the manufacture and sale of stampers for audiovisual products, the provision of pre-mastering and media services and research and development of Internet protocol encoders ("iP Encoders") and data compression technology in Hong Kong. Revenues recognised during the year are as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Turnover		
Sale of stampers for audiovisual products	**5,549**	4,432
Provision of pre-mastering and other media services	**1,605**	1,812
	7,154	6,244
Other revenues		
Interest income	**298**	—
Others	**65**	—
	363	—
Total revenues	**7,517**	6,244

Primary report format — business segments

The Group is organised into three main business segments:

— Sale of stampers — manufacture, wholesale and distribution of stampers for audiovisual products;

— Provision of pre-mastering and other media services — provision of editing, authoring and digitalisation of audiovisual data processes;

— Sale of iP Encoders — distribution of encoding equipment.

Secondary report format — geographical segments

The Group's three business segments are operated in three main geographical areas:

— Hong Kong — sale of stampers and provision of pre-mastering and other media services;

— The People's Republic of China excluding Hong Kong (the "PRC") — sale of stampers;

— Other countries (principally India and Thailand) — sale of stampers.

2 *TURNOVER, REVENUE AND SEGMENT INFORMATION* *(Continued)*

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

Primary report format — business segments

	For the year ended 31st March 2002			
	Sale of stampers *HK$'000*	Provision of pre-mastering and other media services *HK$'000*	Sale of iP Encoders *HK$'000*	Total *HK$'000*
Turnover	5,549	1,605	—	7,154
Segment results	(3,991)	(974)	612	(4,353)
Unallocated income				298
Unallocated costs				(1,477)
Operating loss				(5,532)
Finance costs				(253)
Loss attributable to shareholders				(5,785)
Segment assets	12,590	10,661	—	23,251
Unallocated assets				1,402
Total assets				24,653
Segment liabilities	1,480	20	—	1,500
Unallocated liabilities				3,425
Total liabilities				4,925
Capital expenditure	380	9,733	—	10,113
Unallocated capital expenditure				1,632
				11,745
Depreciation	2,843	—	—	2,843
Unallocated depreciation				176
				3,019

2 ***TURNOVER, REVENUE AND SEGMENT INFORMATION*** *(Continued)*

Primary report format — business segments *(Continued)*

	For the year ended 31st March 2001		
	Sale of stampers	**Provision of pre-mastering services**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	4,432	1,812	6,244
Segment results	(1,002)	(170)	(1,172)
Unallocated costs			(1,044)
Operating loss			(2,216)
Finance costs			(750)
Loss attributable to shareholders			(2,966)
Segment assets	14,146	733	14,879
Unallocated assets			28,782
Total assets			43,661
Segment liabilities	5,801	—	5,801
Unallocated liabilities			12,193
Total liabilities			17,994
Capital expenditure	44	—	44
Depreciation	2,761	—	2,761
Unallocated depreciation			167
			2,928

2 ***TURNOVER, REVENUE AND SEGMENT INFORMATION*** *(Continued)*

Secondary report format — geographical segments

	For the year ended 31st March 2002			
	Turnover	**Segment results**	**Segment assets**	**Capital expenditure**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Hong Kong	**6,159**	**(4,216)**	**24,653**	**11,745**
The PRC	**167**	**530**	**—**	**—**
Other countries	**828**	**(667)**	**—**	**—**
	7,154	**(4,353)**	**24,653**	**11,745**
Unallocated income		**298**		
Unallocated costs		**(1,477)**		
Operating loss		**(5,532)**		
Total assets			**24,653**	

	For the year ended 31st March 2001			
	Turnover	**Segment results**	**Segment assets**	**Capital expenditure**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	5,902	(880)	43,661	17,994
Other countries	342	(292)	—	—
	6,244	(1,172)	43,661	17,994
Unallocated costs		(1,044)		
Operating loss		(2,216)		
Total assets			43,661	

3 *FORFEITURE OF TRADE DEPOSITS/COMMISSION EXPENSE*

(a) Pursuant to a sale and purchase agreement (the "Agreement") between the Group and an independent third party (the "Buyer") in the PRC on 10th May 2001, the Group would sell and the Buyer was obliged to purchase iP Encoders amounted to a value of approximately HK$7,200,000. Deposits of HK$1,100,000 were received on signing the Agreement. However, the Buyer failed to comply with the payment schedule as stipulated in the Agreement and no further delivery instruction was received from the Buyer.

The Board of Directors was of the opinion, after consultation with the Group's legal advisor, that the Buyer has not fulfilled the terms of the Agreement within the time limit as required under the Agreement and the Group has the right to forfeit the said deposits made by the Buyer. Such forfeiture of deposits was recognised by the Group as income in the current year.

(b) The Group also entered into an agreement (the "Agency Agreement") with an independent third party company (the "Agent") which introduced the Buyer to the Group in relation to the sale of IP Encoders as set out in more details in note 3(a) above. Pursuant to the Agency Agreement, the Group was required to pay a commission of HK$500,000 to the Agent. Such commission was paid and expensed by the Group during the year.

4 *OPERATING LOSS*

Operating loss is stated after charging the following:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Charging:		
Auditors' remuneration	**280**	280
Cost of inventories sold	**1,291**	934
Depreciation	**3,019**	2,928
Loss on disposal of fixed assets	**1,225**	—
Operating leases in respect of		
— land and buildings	**195**	168
— plant and machinery	**600**	600
Staff costs (including directors' emoluments)	**4,262**	2,595
Research and development costs	**3**	130

NOTES TO THE ACCOUNTS

5 *FINANCE COSTS*

	Group	
	2002	2001
	HK$'000	*HK$'000*
Interest on bank overdraft	**3**	—
Interest on loan from a related company	**—**	750
Interest on loan from a shareholder	**250**	—
	253	750

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 (2001: Nil).

Deferred tax asset for the year has not been recognised in the consolidated profit and loss account in respect of the following:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Accelerated depreciation allowances	**(535)**	335
Tax losses	**1,756**	85
	1,221	420

At 31st March 2002, the net potential deferred tax asset not recognised in the accounts amounted to:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Accelerated depreciation allowances	**(1,597)**	(1,062)
Tax losses	**3,595**	1,839
	1,998	777

7 *LOSS ATTRIBUTABLE TO SHAREHOLDERS*

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of HK$12,900,000 (2001: HK$214,000).

8 *DIVIDENDS*

No dividends had been paid or declared by the Company during the year (2001: Nil).

9 *LOSS PER SHARE*

The calculation of the basic loss per share is based on the Group's loss attributable to shareholders of HK$5,785,000 (2001: HK$2,966,000) and on 312,500,000 (2001: weighted average number of 204,152,000) ordinary shares in issue during the year.

Diluted loss per share was not presented for both years as there were no dilutive potential ordinary shares.

10 *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.

With effect from 1st October 2001, the policy of the scheme has been changed and both the employer and the employees are required to contribute 5 per cent. of the basic salary of the employees up to a maximum of HK$1,000 per employee per month.

The Group also provides a mandatory provident fund scheme ("MPF Scheme") for its staff in Hong Kong in compliance with the requirements under the Hong Kong Mandatory Provident Fund Schemes Ordinance ("MPF Scheme Ordinance"). Under the MPF Scheme, the Group's contributions are at 5% of the employee's relevant income as defined in the MPF 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 if their relevant income is more than HK$4,000 per month. The MPF contributions from the employer are 100% 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.

10 ***RETIREMENT BENEFIT COSTS*** *(Continued)*

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

	Group	
	2002	2001
	HK$'000	*HK$'000*
Gross employer's contributions	**158**	100
Less: forfeited contributions and related accrued interest utilised to offset employer's contributions	**—**	(18)
Net employer's contributions charged to the consolidated profit and loss account	**158**	82

As at 31st March 2002, no forfeited contributions were available to the Group to reduce its future contributions to the provident fund scheme (2001: Nil).

11 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 are as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Fees	**60**	—
Other emoluments		
— basic salaries, other allowances and benefits in kind	**1,594**	845
— provident fund contributions	**50**	39
	1,704	884

During the year, two independent non-executive directors have each received their emoluments of HK$30,000 (2001: Nil).

During the year, the executive directors received individual emoluments for the year ended 31st March 2002 of approximately HK$744,000 (2001: HK$806,000), HK$780,000 (2001: HK$68,000) and HK$120,000 (2001: HK$10,000) respectively.

No director waived or agreed to waive any of their emoluments in respect of the year ended 31st March 2002 and 31st March 2001.

11 *DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS* *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group are as follows:—

	Group	
	2002	2001
Directors	**2**	1
Non-directors	**3**	4
	5	5

The five individuals whose emoluments were the highest in the Group for the year include two (2001: one) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2001: four) individuals during the year are as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Basic salaries, other allowances and benefits in kind	**769**	384
Provident fund contributions	**30**	14
	799	398

The emoluments of the five individuals fell within the band from nil to HK$1,000,000.

During the year ended 31st March 2002 and 31st March 2001, no emoluments have been paid by the Group to the two (2001: one) directors or the three (2001: four) highest paid individuals as an inducement to join the Group, or as compensation for loss of office.

12 *FIXED ASSETS*

	Group			
	Leasehold improvements	**Plant and machinery**	**Furniture, fixtures and equipment**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost				
At 1st April 2001	1,616	13,845	26	15,487
Additions	1,570	10,113	62	11,745
Disposals	(1,616)	—	—	(1,616)
At 31st March 2002	1,570	23,958	88	25,616
Accumulated depreciation				
At 1st April 2001	256	4,371	8	4,635
Charge for the year	163	2,843	13	3,019
Disposals	(391)	—	—	(391)
At 31st March 2002	28	7,214	21	7,263
Net book value				
At 31st March 2002	1,542	16,744	67	18,353
At 31st March 2001	1,360	9,474	18	10,852

13 *INVESTMENT IN A SUBSIDIARY — COMPANY*

	2002	2001
	HK$'000	*HK$'000*
Unlisted shares, at cost *(note (a))*	**13,307**	13,307
Provision for impairment loss	**(12,631)**	—
	676	13,307
Amount due from a subsidiary *(note (b))*	**22,006**	22,607
	22,682	35,914

13 INVESTMENT IN A SUBSIDIARY — COMPANY *(Continued)*

(a) The following is a list of the principal subsidiaries at 31st March 2002:

Name	Place of incorporation	Principal activities and place of operations	Particulars of issued share capital	Interest held
Held directly:				
M21 Investment Limited ("M21 Investment")	British Virgin Islands	Investment holding in Hong Kong	400 ordinary shares of US$1 each	100%
Held indirectly:				
M21 Mastertech Company Limited	Hong Kong	Manufacture and sale of stampers and provision of pre-mastering and other media services for audiovisual products in Hong Kong	2,000 ordinary shares of HK$1 each	100%
M21 R&D Corporation Limited	Hong Kong	Research and development of iP Encoder and data compression technology in Hong Kong	1,000 ordinary shares of HK$1 each	100%

(b) The amount due from a subsidiary is unsecured, interest-free and has no fixed terms of repayment.

14 INVENTORIES

	2002	2001
	HK$'000	*HK$'000*
Raw materials, at cost	**206**	143

15 ACCOUNTS AND OTHER RECEIVABLES AND DEPOSITS

(a) Accounts receivable

Details of the ageing analysis of accounts receivable were as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Current	**539**	312
31-60 days	**78**	86
61-90 days	**97**	27
Over 90 days	**163**	56
	877	481
Less: provision for doubtful debts	**(98)**	—
	779	481

At 31st March 2002 all the accounts receivable of the Company were aged over 90 days (2001: current).

(b) Other receivables and deposits — Group

Included in other receivables and deposits was an advance of HK$1.5 million made to an independent third party outside the Group (2001: Nil). The balance is unsecured, bearing interest at Hong Kong dollars prime lending rate plus 2 per cent. per annum and repayable on demand. The balance has been fully settled subsequent to the balance sheet date.

16 AMOUNTS DUE FROM RELATED COMPANIES

The amounts mainly represented trading balances due from Silver Kent Technology Limited ("Silver Kent"). Relationship between Silver Kent and the Company is summarised in note 24(i) to the accounts. The amounts are unsecured, interest-free and repayable on demand.

17 ACCOUNTS PAYABLE

Details of the ageing analysis of accounts payable were as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Current	**162**	69
31-60 days	**192**	44
Over 90 days	**10**	34
	364	147

18 SHARE CAPITAL

	Authorised Ordinary shares of HK$0.01 each No. of shares	*HK$'000*
On incorporation	10,000,000	100
Increase of authorised share capital	690,000,000	6,900
At 31st March 2002 and 31st March 2001	700,000,000	7,000

	Issued and fully paid Ordinary shares of HK$0.01 each No. of shares	*HK$'000*
On incorporation	10,000,000	100
Issue of shares	302,500,000	3,025
At 31st March 2002 and 31st March 2001	312,500,000	3,125

19 SHARE OPTIONS

Under the share option scheme (the "Share Option Scheme") approved by the shareholders, the Board 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 Board 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 day business days immediately preceding the Offer Date; and (iii) the nominal value of the shares. The options are exercisable within a period 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 on 20th March 2001.

20 RESERVES

(a) Group

	Group			
	Share premium	**Accumulated losses**	**Merger reserve**	**Total**
	HK$'000	*HK$'000*	*HK$'000* *(note (i))*	*HK$'000*
At 1st April 2000	—	(2,232)	(197)	(2,429)
Placing of shares	30,469	—	—	30,469
Placing and listing expenses	(8,883)	—	—	(8,883)
Capitalisation issue	(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
At 1st April 2001	27,937	(5,198)	(197)	22,542
Listing expenses	(154)	—	—	(154)
Loss for the year	—	(5,785)	—	(5,785)
At 31st March 2002	27,783	(10,983)	(197)	16,603

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.

20 RESERVES *(Continued)*

(b) Company

	Company			
	Share premium	**Accumulated losses**	**Contributed surplus**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1st April 2000	—	—	—	—
Placing of shares	30,469	—	—	30,469
Placing and listing expenses	(8,883)	—	—	(8,883)
Capitalisation issue	(1,831)	—	—	(1,831)
Contributed surplus arising on Group reorganisation	—	—	13,107	13,107
Loss for the year	—	(214)	—	(214)
At 31st March 2001	19,755	(214)	13,107	32,648
At 1st April 2001	19,755	(214)	13,107	32,648
Listing expenses	(154)	—	—	(154)
Loss for the year	—	(12,900)	—	(12,900)
At 31st March 2002	19,601	(13,114)	13,107	19,594

Note:

(i) The contributed surplus of the Company represents the difference between the underlying net assets of the subsidiaries acquired by the Company and the nominal value of the shares issued by the Company at the time of the Group reorganisation. Under the Companies Act 1981 of Bermuda, contributed surplus is available for distribution 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.

21 *NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT*

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

	2002	2001
	HK$'000	*HK$'000*
Operating loss	**(5,532)**	(2,216)
Interest income	**(240)**	—
Depreciation of fixed assets	**3,019**	2,928
Loss on disposal of fixed assets	**1,225**	—
Increase in inventories	**(63)**	(143)
Increase in accounts receivable	**(298)**	(481)
Increase in other receivables and deposits	**(1,449)**	(67)
Decrease in amounts due from fellow subsidiaries	**—**	984
Decrease/(increase) in amounts due from related companies	**939**	(3,296)
Increase in accounts payable	**217**	147
(Decrease)/increase in other payables and accrued charges	**(3,761)**	3,918
(Decrease)/increase in amounts due to related companies	**(3,775)**	3,754
Net cash (outflow)/inflow from operating activities	**(9,718)**	5,528

(b) Analysis of changes in financing

	Share capital including premium		**Loan from a shareholder**	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
At 1st April	**31,062**	200	**8,741**	15,535
Proceeds from issue of shares	**—**	31,407	**—**	—
Placing and listing expenses	**—**	(8,883)	**—**	—
Loan capitalisation	**—**	8,182	**—**	(8,182)
Pre-placing placement	**—**	156	**—**	—
Listing expenses	**(154)**	—	**—**	—
Cash (outflow)/inflow from financing	**—**	—	**(6,000)**	1,388
Interest on loan from a shareholder	**—**	—	**250**	—
At 31st March	**30,908**	31,062	**2,991**	8,741

22 LOAN FROM A SHAREHOLDER

On 20th March 2001, M21 Investment entered into a loan agreement with Sundowner Management Limited ("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.

23 COMMITMENTS UNDER OPERATING LEASES

At 31st March 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2002		2001	
	Machinery	**Others**	Machinery	Others
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Within one year	**600**	**276**	600	300
In the second to fifth year inclusive	**—**	**552**	600	—
	600	**828**	1,200	300

24 RELATED PARTY TRANSACTIONS

Save as disclosed in note 22 to the accounts, significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

	Note	**2002**	2001
		HK$'000	*HK$'000*
Sale of stampers to Silver Kent	*(i)*	**2,840**	4,007
Provision of pre-mastering services to Mei Ah Video Production Company Limited ("MAVP")	*(ii)*	**1,544**	1,091
Rental expense of factory premise paid to Cyberworks Audio Video Technology Limited ("CAVT")	*(iii)*	**126**	168
Rental expense of machinery paid to MAVP	*(iv)*	**600**	600
Interest expense paid to Mei Ah (HK) Company Limited ("MAHK")	*(v)*	**—**	750
Rental expense of office premise paid to Mei Ah Investment Company Limited ("MAI")	*(vi)*	**69**	—
Interest expense paid to Sundowner	*(vii)*	**250**	—

24 *RELATED PARTY TRANSACTIONS (Continued)*

(i) Silver Kent is directly owned as to 55 per cent. by Sino Regal Holding Limited ("SRH") and 45 per cent. by Sundowner. Both SRH and Sundowner are substantial shareholders of the Company. 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.

(ii) The pre-mastering services are rendered to MAVP. Sundowner is indirectly wholly-owned by MAVP which in turn is a shareholder of the Company. These transactions are conducted in the normal course of business at prices and in accordance with the terms of a pre-mastering services agreement.

(iii) The rental of a factory premise, which is sub-leased from CAVT, is determined on a cost reimbursement basis. CAVT is indirectly owned as to 55 per cent. by SRH and 45 per cent. by Sundowner. Both SRH and Sundowner are substantial shareholders of the Company.

(iv) Sundowner is indirectly wholly-owned by MAVP. MAVP is a wholly-owned subsidiary of Mei Ah Entertainment Group Limited ("Mei Ah Entetainment"). The rental is determined in accordance with the terms of the relevant rental agreement.

(v) MAHK 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. Loan from MAHK had been fully settled in March 2001.

(vi) MAI is a wholly-owned subsidiary of Mei Ah Entertainment. The rental is determined in accordance with the terms of the relevant rental agreement.

(vii) Interest is charged at Hong Kong dollars prime lending rate plus 1.5 per cent. per annum and is complied with the terms of the Loan Agreement referred to note 22.

25 *APPROVAL OF ACCOUNTS*

The accounts were approved by the board of directors on 28th June 2002.

FINANCIAL SUMMARY

	Year ended 31st March 2002	Year ended 31st March 2001	Period from 5th February 1999 to 31st March 2000
	HK$'000	*HK$'000*	*HK$'000*
Results			
Loss attributable to shareholders	**5,785**	2,966	2,232

	As at 31st March		
	2002	2001	2000
	HK$'000	*HK$'000*	*HK$'000*
Assets and liabilities			
Total assets	**24,653**	43,661	14,765
Total liabilities	**(4,925)**	(17,994)	(16,994)
	19,728	25,667	(2,229)

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of M21 TECHNOLOGY LIMITED ("the Company") will be held at Conference Room, Mei Ah Centre, 28 Chun Choi street, Tseung Kwan O Industrial Estate, Kowloon on Friday, 26th July 2002 at 4:30 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 year ended 31st March 2002.

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

(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."

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, 28th June 2002

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, 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong together with any power of attorney or other authority, under which it is signed, or a notary 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, 19th July 2002 to Friday, 26th July 2002, 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, 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong for registration no later than 4:00 p.m. on Thursday, 18th July 2002.

(3) A circular containing further details regarding Resolution no. 4 as required by the GEM Listing Rules will be despatched to shareholders together with 2002 Annual Report.

http://www.m21.com.hk