

# **M21 Technology Limited**

(Incorporated in Bermuda with limited liability)



## **First Quarterly Report 2002**

Quarterly ended  
30th June 2002

## **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.**

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

## QUARTERLY RESULTS

The board of directors (the “Board”) of M21 Technology Limited (the “Company”) present the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months ended 30th June 2002 together with the comparative figures for the corresponding period in 2001 as follows:

		<b>For the three months ended 30th June</b>	
	<i>Notes</i>	<b>2002</b>	<b>2001</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
Turnover	2	<b>2,237</b>	1,910
Cost of sales		<b>(1,686)</b>	(1,187)
Gross profit		<b>551</b>	723
Interest income		<b>3</b>	150
Profit on disposal of fixed assets		<b>609</b>	—
General, administrative and other expenses		<b>(1,571)</b>	(1,810)
Loss from operations		<b>(408)</b>	(937)
Interest expenses		<b>(28)</b>	(1)
Loss attributable to shareholders		<b>(436)</b>	(938)
Basic loss per share	3	<b>(0.14 cents)</b>	(0.30 cents)

*Notes:*

### 1. **Basis of preparation of the accounts**

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. The accounts are prepared under the historical cost convention.

## 2. Revenues and Turnover

The Group is principally engaged in the manufacture and sale of stampers for audiovisual products, the provision of pre-mastering services and media services and provision of play-out services. Revenues recognized during the period are as follows:

	For the three months ended 30th June	
	2002	2001
	HK\$'000	HK\$'000
<b>Turnover:</b>		
Sales of stampers for audiovisual products	1,395	1,591
Provision of pre-mastering services	248	319
Provision of playout services	594	—
	<hr/>	<hr/>
	2,237	1,910
<b>Other revenues</b> — Interest income	3	150
Profit on disposal of fixed assets	609	—
	<hr/>	<hr/>
<b>Total revenues</b>	<b>2,849</b>	<b>2,060</b>
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## 3. Taxation

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profit during the three months ended 30th June 2002 (2001: Nil).

## 4. Loss per share

The calculation of basic loss per share for the three months ended 30th June 2002 was based on the Group's loss attributable to shareholders of approximately HK\$436,000 (2001: loss of HK\$938,000) and 312,500,000 (2001: 312,500,000) ordinary shares in issue during the period.

Diluted loss per share for the three months ended 30th June 2002 and 2001 were not presented because there were no dilutive potential ordinary shares.

## INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 30th June 2002 (2001: Nil).

## RESERVES

There has been no transfer to or from reserves during the three months ended 30th June 2002.

## **BUSINESS REVIEW**

Since the acquisition of PowerTV equipment in February 2002, the Group has started the playout service and has generated new revenue stream of HK\$594,000 during the period under review, which accounted for approximately 27% of the Group's turnover.

For the three months ended 30 June 2002, income from pre-mastering services accounted for approximately 11% (2001: 17%) of the Group's turnover whilst income from mastering services accounted for 62% (2001: 83%) of the Group's turnover. Most of the Group's sales during the period was derived from Hong Kong and PRC, accounting for approximately 89% of the Group's sales, whilst the remaining 11% was derived from India.

The Group has generated a gross profit of approximately HK\$551,000 (2001: HK\$723,000) out of total turnover of approximately HK\$2,237,000 (2001: HK\$ 1,910,000) for the three months ended 30 June 2002. Although turnover increased by approximately 17% compared to last year, the gross profit margin experienced a decline from 37.8% to 24.6%.

The increase in turnover was attributable to the new income stream of the playout service provided to MATV Limited ("MATV") under a trial agreement. Though there was an increase in quantity of VCD stamper orders, it did not help the dramatically decrease in average price of both the VCD and DVD stampers. The decline in gross profit was also attributable to the recruitment of professionals in the TV broadcasting field to enable the smooth set-up of the playout service.

The proportion of business relying from our single large customer in mastering services has been decreased to 38% (2001: 47%) due to the increase in external orders during the period under review. The maximum daily production capacity of the mastering line stayed at 70% with consistent performance.

Another income stream was the disposal of excess PowerTV machinery which generated a profit of HK\$609,000 during the period under review. Thus, the loss attributable to the shareholders has decreased by approximately 54% comparing with the same period last year. 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 next quarter.

## **BUSINESS PURSUITS/PROSPECTS**

Though the general climate is prudent, the Group believes that focusing in 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.

The Group welcomes the enforcement of the registration of mastering line on 19 July 2002 as informed by the Customs and Excise Department of Hong Kong. The Directors believe that such enforcement of legislation will benefit to the mastering industry as a whole. The Directors will do their best endeavour to ensure the Group complies with any of such requirements.

Although the Group's pre-mastering and mastering businesses are affected by the present unfavourable business environment, the Directors believe that there will be tremendous business opportunities in pre-mastering, mastering, webcasting and media services for 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.

With the acquisition of PowerTV equipment, the Group has been enabled 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, playout service is a kind of such transmission that the Group will develop on.

Capitalising on its expertise and experiences in pre-mastering, mastering and webcasting operations, the PowerTV 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 has been installing the equipment in the new Tseung Kwan O site and is ready to bring in immediate returns.

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.

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

As at 30th June 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**

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

*Note:*

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

Save as disclosed above, as at 30th June 2002, neither the directors nor their associates, had any interests in any equity securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

## SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 16(1) of the Securities (Disclosure of Interests) Ordinance shows that as at 30th June 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 (%)
Sino Regal Holding Limited ("SRH")	111,718,750	35.75
Sundowner Management Limited ("Sundowner")	91,406,250	29.25
Mei Ah (China) Company Limited ( <i>note a</i> )	91,406,250	29.25
Mei Ah Video Production Company limited ("MAVP") ( <i>note b</i> )	91,406,250	29.25
Mei Ah Holdings Limited ( <i>note c</i> )	91,406,250	29.25
Mei Ah Entertainment Group Limited ( <i>note d</i> )	91,406,250	29.25
Kuo Hsing Holdings Limited ( <i>note e</i> )	91,406,250	29.25
Li Kuo Hsing ( <i>note f</i> )	91,406,250	29.25

### Notes:

- (a) Sundowner is a wholly-owned subsidiary of Mei Ah (China) Company Limited ("Mei Ah China"). The shares referred to herein relate to the same parcel of shares held by Sundowner.
- (b) Mei Ah China is a wholly-owned subsidiary of MAVP. The shares referred to herein relate to the same parcel of shares held by Sundowner.
- (c) MAVP is a wholly-owned subsidiary of Mei Ah Holdings Limited. The shares referred to herein relate to the same parcel of shares held by Sundowner.
- (d) Mei Ah Holdings Limited is a wholly-owned subsidiary of Mei Ah Entertainment Group Limited ("Mei Ah Entertainment"). The shares referred to herein relate to the same parcel of shares held by Sundowner.
- (e) As at 30th June 2002, Kuo Hsing Holdings Limited is interested in approximately 50 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 June 2002.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Under the share option scheme (the "Share Option Scheme") approved by the shareholders in March 2001, 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 Board of directors and shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date an option is offered (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. The options are exercisable within a period of not less than 3 years nor more than 10 years from the Offer Date.

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

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

The Company has not redeemed any of its listed securities during the three months ended 30th June 2002. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the three months ended 30th June 2002.

## **SPONSOR'S INTEREST**

None of Shenyin Wanguo Capital (H.K.) Limited ("Shenyin", the company's sponsor), its directors, employees or associates as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules had any interests in the share capital of the Company as at 30th June 2002.

Pursuant to the agreement dated 23rd March 2001 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.

On Behalf of the Board  
**Tong Hing Chi**  
*Chairman*

Hong Kong, 12th August 2002