M21 TECHNOLOGY LIMITED

Incorporated in Bermuda with limited liability

2003 Annual Report

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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Corporate Information

Board of Directors

Executive Directors

Mr. Tong Hing Chi *(Chairman)*

Mr. Law Kwok Leung *(CEO)*

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. Chan Lun Ho

Authorised Representative

Mr. Tong Hing Chi

Mr. Law Kwok Leung

Qualified Accountant

Mr. Sit Hon Wing, 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 Banker

Bank of China (Hong Kong) Limited

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
G/F, Bank of East Asia Harbour View Centre
56 Gloucester Road, Wanchai
Hong Kong

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

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 annual results of the Group for the year ended 31st March 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

Group results

During the year under review, the Group achieved approximately 71% growth in turnover comparing with last year.

For the year ended 31st March 2003, income from pre-mastering and media services accounted for approximately 27% (2002: approximately 22%) of the Group's turnover whilst income from mastering services accounted for approximately 42% (2002: approximately 78%) of the Group's turnover. Income from playout services, a new business of the Group, accounted for approximately 31% (2002: Nil) of the Group's turnover, which contributed to the sharp rise of 71% in the Group's turnover. Most of the Group's sales during the year was derived from Hong Kong, accounting for approximately 91% (2002: 86%) of the Group's sales, whilst the remaining 9% (2002: 14%) was principally derived from India.

The Group has generated a remarkable gross profit of approximately HK$4.3 million (2002: HK$1.3 million) out of total turnover of approximately HK$12.2 million (2002: HK$7.1 million) for the year ended 31st March 2003 as well as an increase in gross profit margin from 19% to 36%.

The stamper market has been undergoing transformation during the year, where the economic depression together with the competition among the replication industry itself has driven many plants to migrate north, and some even simply closed their plants for good. Consequently, the stamper industry has suffered a direct impact. Though the Group has been acting aggressively on sales and marketing, the stampers sales experienced a decline of 7.5% as a result of the fierce marketing competition and interruption of operation during the period of equipment maintenance.

The proportion of business from our largest customer has dropped to 26% in comparison to 38% in last year as a result of the increase in external orders during the year.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Group results *(Continued)*

The loss attributable to shareholders has reduced by approximately HK$3.5 million comparing with last year. The improvement of results was mainly attributed to the significant increase of approximately HK$1.7 million income in pre-mastering and media services comparing with last year, representing an increase of 108%. Such big increment was partly due to the aggressive sales and marketing effort during the year, and also the fact that pre-mastering and media services appeared as ancillary bundle of playout services where most channel operators would require media services treatment to their content before playing-out.

Since the Group has been listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited ("GEM") for two years and is well perceived by the public, the directors are confident that the Group will grow prosperously to meet the demand of the rapid changing entertainment market by focusing on the business of audiovisual technology, media and playout services. Despite the fact that the Group is still sustaining loss, the directors are optimistic of the growth and profitability of the Group in the future.

Dividends

The directors do not recommend the payment of any dividend for the year ended 31st March 2003.

Business review and pursuits

The Group is principally engaged in the provision of pre-mastering, audiovisual playout and mastering services, and has been taking aggressive approaches in gearing towards profitability since its successful listing on GEM in 2001. The Group has been continuing its efforts towards resource consolidation, strengthening management and exploring new business opportunities for the development of our core areas such as mastering, pre-mastering, media production, playout and audiovisual technology, so as to maintain business growth.

In the past few years, the global business environment has been adversely affected by a number of significant events, including the 11th of September terrorist attack in the US, and more recently, the anti-terrorist wars in Afghanistan and Iraq, and the outbreak of the Severe Acute Respiratory Syndrome ("SARS") in the Asia Pacific region, which subsequently developed into a worldwide epidemic. The SARS disaster has created considerable negative impact on the already depressing economy of Hong Kong, and has further contributed to the protracted worldwide recession. Global capital markets have spiralled downwards over the last few years in response to these events and the ensuing recession.

However, the Group believes that SARS is unlikely to have a significant impact on the Group's business in the medium and long-term as the spread of SARS in Hong Kong and other major cities in Asia have been contained.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Business review and pursuits *(Continued)*

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

Though a number of mastering lines have been relocated after the enforcement of the registration, the general worsening climate has an adverse effect on the replication industry and has driven many plants to migrate or even to close down. The mastering industry in Hong Kong has been suffering from diminishing clients and increasing competitive pressure from Mainland China. However, the Group believes that this is a temporary phenomenon and the competitive advantage will soon be faded out after the Customs has implemented the related control.

Although the Group's pre-mastering and mastering businesses are affected by the immediate 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 for various types of business opportunities and enhance the utilisation of the current available resources.

Management has continued to evaluate the dynamics of the operating environment in order to carve and identify the growth opportunities within the audiovisual market. With the requisite equipment from the PowerTV deal in the year 2002, the Group has been able to strengthen its pre-mastering function and has been able to vertically extend the Group's business into post-production functions.

With the opening up of Cable, Satellite and Pay Television in Hong Kong, and the popularisation of broadband network, the directors believe that the demand for audiovisual contents will increase rapidly and that there will be a rapid growth in a variety of programme channel transmission in digital signal format. The directors believe that it is a good opportunity to capitalise on its expertise and experience in audiovisual technology, and to pursue the concept of a digitised platform with pre-mastering and post-production facilities that cater for business development in areas of audiovisual contents transmission, i.e. the playout services. The Group further anticipates that its digitised platform and post-production facilities will soon be fully utilised and thus have been trying to shorten the set up time to meet the demand.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Business review and pursuits *(Continued)*

In April 2002, the Group started the audiovisual playout services for the MATV channel and since January 2003, three more channels have been added and at 31st March 2003, the Group is managing four playout channels with considerable ancillary bundle post-production services. The Group has successfully generated new lines of revenue stream and will endeavour its best effort in negotiation with channel operators and exploring more business opportunities.

The Group has also achieved great success in the pre-mastering services and has been receiving praises from the general public for the high quality pre-mastering work delivered in VCD/DVD. The Group has demonstrated its strongest commitment in maintaining the highest quality control in our products and services and with the award of the international quality recognition ISO9001:2000 in its mastering and pre-mastering business, the Group has proven the achievement of the aim of being the leader in audiovisual industry in Hong Kong. Nevertheless, it will continue to enhance itself in products and services in order to satisfy customers' needs.

Business pursuits/prospects

Though the general climate is in doom, the performance of the Group's existing businesses for the year was within expectation. The Group believes that with the opening up of the Pay Television and the broadband network, more and more home entertainment channels will be available and in turn, more channel operators will require pre-mastering, post-production and playout services to distribute their contents, or to put this in context, a fully operational digitised platform. Furthermore, most of the surviving operators after the Internet fall 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, post-production and playout services will increase significantly.

The target customers for the enhanced digitised platform include broadband operators, video producers and distributors, film makers, terrestrial, cable and satellite TV broadcasters which are 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.

The directors are of the view that the business of media transmission has a substantial entry barrier yet there is a foreseeable huge demand in such service, the directors also believe that the Group possesses competitive advantages in providing a one-stop media solution to operators who need a bundle of pre-mastering and post-production services as well as playout service. Since the media services are seen as a rapidly growing business in Hong Kong, the Group will strategically invest in and focus on the development of this business.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Business pursuits/prospects *(Continued)*

The development of the IP encoder as stated in the prospectus dated 26th March 2001 of the Company (the "Prospectus") has been suspended due to the slow and deferred roll-out of multi-cast network in Hong Kong and other countries. Due to the worsening economic condition, the Group has also deferred the development of MPEG-4 and 7 complicant compression algorithm as stated in the Prospectus until the economic condition becomes visionable.

Since the economic condition has been worsening globally after the 11th of September attack, the Group has exercised additional care and has been more selective in making new investments. The Group will place priority in projects that generate synergy to the digitised platform. The Group remains cautiously optimistic about the future and expects the economic environment will become favourable in the near future.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally finances its operation with internally generated cash flows. During the year, the loan from a shareholder was fully repaid and the Group has no external borrowing as at 31st March 2003. The Group has no exposure to foreign currency fluctuations.

EMPLOYEE INFORMATION

As at 31st March 2003, the Group has 26 full-time employees. Employees costs, including directors' emoluments, for the year amounted to approximately HK$5.3 million. Remuneration is reviewed annually and employees are rewarded on a performance related basis. In addition to basic salaries, a wide range of benefits, including medical coverage, provident funds, training and development programmes and long service awards are also provided on an ongoing basis to employees of the Group. The Group has a share option scheme whereby qualified employees may be granted options to acquire shares of the Company.

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, and to the management and staff for their valuable contribution and devotion to the Group throughout the years.

Tong Hing Chi
Chairman
Hong Kong, 25th June 2003

Directors' and Senior Management's Profile

Executive Directors

Mr. TONG Hing Chi, aged 48, is the Chairman and Managing Director of the Group. Mr. Tong has over 15 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 member of the Association of Chartered Certified Accountants and an associate member 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 42, 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 18 years of experience in the advanced technology. Mr. Law joined the Group in February 1999.

Non-Executive Director

Mr. CHAN Kwok Sun, Dennis, aged 53, has accumulated more than 21 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 42, 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 47, 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.

Senior Management

Mr. SIT Hon Wing, aged 26, is the Financial Controller of the Group and the Qualified Accountant of the Company. Mr. Sit is responsible for all financial and accounting matters including budgetary control and internal control procedures of the Group. Mr. Sit holds a Bachelor of Arts Degree in Accountancy and is an associate member of the Hong Kong Society of Accountants. Mr. Sit possesses four years' auditing and accounting experience. Mr. Sit joined the Group in December 2002.

Mr. CHAN Lun Ho, aged 33, is the Company Secretary of the Company with effect from August 2002. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants. He has over 11 years of auditing and accounting experience.

Mr. XING Yi Zhi, aged 40, 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 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 2003.

Principal activity and geographical analysis of operations

The principal activity of the Company is investment holding. The activities of the principal subsidiaries are set out in note 12 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 of the Group for the year are set out in the consolidated profit and loss account on page 20.

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 of the Group are set out in note 11 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 2003, 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

A summary of the published results and of the assets and liabilities of the Group for the last four financial years is set out on page 48.

Purchase, sale or redemption of 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 "Scheme") was adopted by the Company. Details of the Scheme are as follows:

(a) Purposes of the Scheme

The purposes of the 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 Scheme

Pursuant to the Scheme, the Company may offer to grant share options (the "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 Scheme

The maximum number of shares available for issue under the Scheme is 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 the Options under the 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 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 Scheme.

(e) Exercisable period of Options

Pursuant to the Scheme, an Option may be exercised in whole or in part in the manner provided in the 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").

Share option scheme *(Continued)*

(f) Payment on acceptance of Option offer

Pursuant to the 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 the Options to be granted under the 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 Scheme

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

The Scheme will remain valid until 19th March 2011.

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

Directors

The directors during the year were:

Executive directors

Mr. TONG Hing Chi
Mr. LAW Kwok Leung
Dr. HAU Sek Ki (resigned on 1st March 2003)

Non-executive director

Mr. CHAN Kwok Sun, Dennis

Directors *(Continued)*

Independent non-executive directors

Mr. CHANG Carl

Mr. SOUSA Richard Alvaro

In accordance with clause 87 of the Company's bye-laws, Mr. LAW Kwok Leung retires by rotation and, being eligible, offers himself for re-election.

The non-executive directors of the Company are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's bye-laws.

Directors' service contracts

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' interests in contracts

Save as disclosed under "Connected transactions", no other contracts of significance in relation to the Group's business to which the Company or its 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.

Save as disclosed under "Share Option Scheme", at no time during the year was the Company or its subsidiaries a party to any arrangement 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 8 to 9.

Directors' interests in equity or debt securities

At 31st March 2003, the interests of the directors and chief executives in the shares 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

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

Note:

(a) 111,718,750 shares are held by Sino Regal Holding Limited ("SRH"), a company in which Mr. LAW Kwok Leung and Mr. CHAN Kwok Sun, Dennis have an equity interests of 70% and 30% therein respectively.

Substantial shareholders

The register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that as at 31st March 2003, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital.

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

Substantial shareholders *(Continued)*

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 2003, Kuo Hsing Holdings Limited is interested in approximately 52.4% 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

The related party transactions as disclosed in note 24 to the accounts also constitute connected transactions under the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), out of which the transactions set out in note 24 (i), (ii) and (v) are required to be disclosed in accordance with Chapter 20 of the GEM Listing Rules.

The Stock Exchange has granted a conditional waiver for strict compliance with the requirements set out in Rules 20.35 and 20.36 in respect of the transactions under the Pre-mastering Services and Stamper Supply Agreement and the Pre-mastering Services Agreement as set out in note 24 (i) and (ii) to the accounts respectively. In accordance with an ordinary resolution passed on a special general meeting dated 31st August 2002, the transactions under the Formal Agreement as set out in note 24 (v) and the relevant annual cap amount of HK$10 million has also been approved by the shareholders of the Company.

The independent non-executive directors of the Company have reviewed the connected transactions set out in note 24 (i), (ii) and (v) to the accounts and confirmed that these transactions have been entered into:—

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms and are fair and reasonable so far as the shareholders of the Company are concerned;

Connected transactions *(Continued)*

(3) in accordance with the relevant agreements governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and

(4) in the manner that the annual cap amounts of HK$5,000,000, HK$2,000,000 and HK$10,000,000 for the Pre-mastering Services and Stamper Supply Agreement, the Pre-mastering Services Agreement and the Formal Agreement respectively have not been exceeded.

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.

Pension scheme arrangement

The Group 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$5,000 per month (HK$4,000 per month prior to 1st February 2003). 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.

During the year, the Group also contributed to a defined contribution retirement scheme which provides retirement benefits to the employees. Both the employer and the employees are required to contribute 5% of the basic salary of the employees up to a maximum of HK$1,000 per employee per month. The employees are entitled to 100% of the employer's contribution and accrued interest after 10 years of completed service, or at a reduced scale of between 20% and 90% 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 future contribution, if any. During the year, all staff under this scheme has resigned and a refund of approximately HK$23,000 in respect of the forfeited contributions was received. After that no contribution has been made by the Group to the scheme.

Major customers and suppliers

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

Purchases	
— the largest supplier	24%
— five largest suppliers combined	69%
Sales	
— the largest customer	26%
— five largest customers combined	79%

(i) One of the five largest customers is 55% owned by SRH and 45% owned by Sundowner, and SRH is 70% owned by Mr. LAW Kwok Leung and 30% owned by Mr. CHAN Kwok Sun, Dennis.

(ii) Two of the five largest customers, including the largest customer, are wholly-owned subsidiaries of Mei Ah Entertainment in which Mr. TONG Hing Chi has approximately 0.44% equity interest.

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

Throughout the year, the Company was in compliance 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 the effectiveness of both 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. CHANG Carl. 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, 25th June 2003

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 20 to 47 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the 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 the Group as at 31st March 2003 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, 25th June 2003

Consolidated Profit and Loss Account

For the year ended 31st March 2003

	Note	2003 HK$'000	2002 HK$'000
Turnover	2	**12,232**	7,154
Cost of sales		**(7,886)**	(5,789)
Gross profit		**4,346**	1,365
Other revenues	2	**37**	363
Forfeiture of trade deposits	3	**—**	1,100
Commission expense	3	**—**	(500)
Gain/(loss) on disposal of fixed assets		**609**	(1,225)
General, administrative and other expenses		**(7,152)**	(6,635)
Operating loss	4	**(2,160)**	(5,532)
Finance costs	5	**(106)**	(253)
Loss attributable to shareholders	7	**(2,266)**	(5,785)
Basic loss per share	8	**(0.73 cent)**	(1.85 cents)

Consolidated Balance Sheet

As at 31st March 2003

	Note	2003 HK$'000	2002 HK$'000
Non-current assets			
Fixed assets	*11*	**14,592**	18,353
Current assets			
Inventories	*13*	**202**	206
Accounts receivable	*14*	**2,100**	779
Other receivables and deposits		**1,080**	1,558
Amounts due from related companies	*16*	**1,638**	2,360
Bank balances and cash		**88**	1,397
		5,108	6,300
Current liabilities			
Accounts payable	*17*	**227**	364
Other payables and accrued charges		**1,651**	1,570
Amount due to a related company	*16*	**360**	—
		2,238	1,934
Net current assets		**2,870**	4,366
Total assets less current liabilities		**17,462**	22,719
Financed by:			
Share capital	*18*	**3,125**	3,125
Reserves	*20*	**14,337**	16,603
Shareholders' funds		**17,462**	19,728
Loan from a shareholder	*22*	**—**	2,991
		17,462	22,719

On behalf of the Board

Tong Hing Chi
Director

Law Kwok Leung
Director

Balance Sheet

As at 31st March 2003

	Note	2003 HK$'000	2002 HK$'000
Investment in a subsidiary	12	**18,517**	22,682
Current assets			
Accounts receivable		**—**	4
Bank balances and cash		**1**	193
		1	197
Current liabilities			
Other payables and accrued charges		**534**	160
Amount due to a subsidiary	15	**502**	—
Amount due to a related company	16	**20**	—
		1,056	160
Net current (liabilities)/assets		**(1,055)**	37
Total assets less current liabilities		**17,462**	22,719
Financed by:			
Share capital	18	**3,125**	3,125
Reserves	20	**14,337**	19,594
Shareholders' funds		**17,462**	22,719

On behalf of the Board

Tong Hing Chi
Director

Law Kwok Leung
Director

Consolidated Statement of Changes in Equity

For the year ended 31st March 2003

	Note	**2003**	2002
		HK$'000	*HK$'000*
Total equity as at the beginning of year		**19,728**	25,667
Listing expenses	*20(a)*	**—**	(154)
Loss for the year	*20(a)*	**(2,266)**	(5,785)
Total equity as at the end of year		**17,462**	19,728

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March 2003

	Note	2003 HK$'000	2002 HK$'000
Net cash inflow/(outflow) from operations	21(a)	**896**	(9,718)
Interest paid		**—**	(3)
Net cash inflow/(outflow) from operating activities		**896**	(9,721)
Investing activities			
Sale of fixed assets		**1,555**	—
Purchase of fixed assets		**(665)**	(11,745)
Interest received		**2**	240
Net cash inflow/(outflow) from investing activities		**892**	(11,505)
Net cash inflow/(outflow) before financing activities		**1,788**	(21,226)
Financing activities	21(b)		
Listing expenses paid		**—**	(154)
Repayment of loan from a shareholder		**(3,097)**	(6,000)
Net cash outflow from financing activities		**(3,097)**	(6,154)
Decrease in cash and cash equivalents		**(1,309)**	(27,380)
Cash and cash equivalents as at the beginning of year		**1,397**	28,777
Cash and cash equivalents as at the end of year		**88**	1,397
Analysis of balances of cash and cash equivalents			
Bank balances and cash		**88**	1,397

1 Principal accounting policies

The principal accounting policies adopted in the preparation of these 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"). They have been prepared under the historical cost convention.

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2002.

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 15 (revised)	:	Cash flow statements
SSAP 34 (revised)	:	Employee benefits

The adoption of these new or revised SSAPs had no material effects on the Group's results.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st March.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results 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.

1 Principal accounting policies *(Continued)*

(b) Consolidation *(Continued)*

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.

(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% or lease term, whichever is the shorter
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.

1 Principal accounting policies *(Continued)*

(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.

(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) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision, where appropriate, is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

1 Principal accounting policies *(Continued)*

(i) Employee benefits *(Continued)*

(ii) Pensions obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes 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 Group to the fund.

The Group's contributions to the defined contribution retirement schemes are expensed as incurred. The assets of the scheme are held separately from those of the Group in an independently administered fund.

(j) Revenue recognition

(i) Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.

(ii) Revenue from the provision of pre-mastering and other media services is recognised when the services are rendered.

(iii) Revenue from the provision of audiovisual playout services is recognised when the services are rendered.

(iv) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(k) 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. All exchange differences are dealt with in the profit and loss account.

(l) Borrowing costs

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

1 Principal accounting policies *(Continued)*

(m) 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 11).

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

2 Turnover, revenues and segment information

The Group is principally engaged in the manufacture and sale of stampers for audiovisual products, the provision of pre-mastering and other media services and the provision of audiovisual playout services. Revenues recognised during the year are as follows:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Turnover		
Sale of stampers for audiovisual products	**5,134**	5,549
Provision of pre-mastering and other media services	**3,338**	1,605
Provision of audiovisual playout services	**3,760**	—
	12,232	7,154
Other revenues		
Interest income	**2**	298
Others	**35**	65
	37	363
Total revenues	**12,269**	7,517

2 Turnover, revenues and segment information *(Continued)*

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; and

— Provision of audiovisual playout services — provision of audiovisual playout services on audiovisual data.

There are no sales or other transactions between the business segments.

Secondary report format — geographical segments

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

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

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

There are no sales between the geographical segments.

2 Turnover, revenues 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 2003			
	Sale of stampers HK$'000	Provision of pre-mastering and other media services HK$'000	Provision of audiovisual playout services HK$'000	Total HK$'000
Turnover	5,134	3,338	3,760	12,232
Segment results	(1,496)	1,670	1,711	1,885
Unallocated income				2
Unallocated costs				(4,047)
Operating loss				(2,160)
Finance costs				(106)
Loss attributable to shareholders				(2,266)
Segment assets	6,701	575	10,651	17,927
Unallocated assets				1,773
Total assets				19,700
Segment liabilities	587	—	463	1,050
Unallocated liabilities				1,188
Total liabilities				2,238
Capital expenditure	—	—	650	650
Unallocated capital expenditure				15
				665
Depreciation	2,845	—	458	3,303
Unallocated depreciation				177
				3,480

2 Turnover, revenues and segment information *(Continued)*

Primary report format — business segments *(Continued)*

	For the year ended 31st March 2002			
	Sale of stampers	Provision of pre-mastering and other media services	Sale of iP encoders	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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, revenues and segment information *(Continued)*

Secondary report format — geographical segments

	For the year ended 31st March 2003			
		Segment	Segment	Capital
	Turnover	results	assets	expenditure
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	**11,134**	**1,290**	**19,355**	**665**
Other countries	**1,098**	**595**	**345**	**—**
	12,232	**1,885**	**19,700**	**665**
Unallocated income		**2**		
Unallocated costs		**(4,047)**		
Operating loss		**(2,160)**		

	For the year ended 31st March 2002			
		Segment	Segment	Capital
	Turnover	results	assets	expenditure
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	6,159	(4,216)	24,653	11,745
The People's Republic of China (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)		

3 Forfeiture of trade deposits/commission expense

The forfeiture of trade deposits represented forfeiture of deposits paid by an independent third party (the "Buyer") which, in the opinion of the Board of Directors and the Group's legal advisors, had not fulfilled the terms of the sale and purchase agreement entered into between the Group and the Buyer. Also, pursuant to an agreement entered into by the Group and an independent third party (the "Agent"), the Group was required to pay an amount of HK$500,000 to the Agent as commission for introduction of the Buyer to the Group.

Such forfeiture of deposits and commission were recognised as income and expense respectively during the year ended 31st March 2002.

4 Operating loss

Operating loss is stated after charging the following:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Auditors' remuneration	**300**	280
Cost of inventories sold	**5,426**	5,071
Depreciation	**3,480**	3,019
Operating leases in respect of		
— land and buildings	**276**	195
— plant and machinery	**610**	600
Staff costs (including directors' remuneration) *(note 9)*	**5,279**	4,262

5 Finance costs

	Group	
	2003	2002
	HK$'000	*HK$'000*
Interest on bank overdraft	**—**	3
Interest on loan from a shareholder	**106**	250
	106	253

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 (2002: Nil).

Deferred tax assets/(liabilities) for the year have not been recognised in the consolidated profit and loss account in respect of the following:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Accelerated depreciation allowances	**1,063**	(535)
Tax losses	**939**	1,756
	2,002	1,221

At 31st March 2003, the net potential deferred tax assets/(liabilities) not recognised in the accounts amounted to:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Accelerated depreciation allowances	**(534)**	(1,597)
Tax losses	**4,534**	3,595
	4,000	1,998

7 Loss attributable to shareholders

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of HK$5,257,000 (2002: HK$12,900,000).

8 Basic loss per share

The calculation of the basic loss per share is based on the Group's loss attributable to shareholders of HK$2,266,000 (2002: HK$5,785,000) and on 312,500,000 (2002: 312,500,000) ordinary shares in issue during the year.

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

9 Staff costs (including directors' remuneration)

	2003	2002
	HK$'000	*HK$'000*
Wages and salaries	**5,146**	4,104
Pension costs — defined contributions plan	**133**	158
	5,279	4,262

10 Directors' and senior management's emoluments

(a) Directors' emoluments

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

	Group	
	2003	2002
	HK$'000	*HK$'000*
Independent non-executive directors		
— Fees	**50**	60
— Other emoluments	**—**	—
Executive directors		
— Fees	**—**	—
— Other emoluments, including basic salaries, other allowances and benefits in kind	**1,553**	1,594
— provident fund contributions	**23**	50
	1,626	1,704

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

(a) Directors' emoluments *(Continued)*

During the year, the two independent non-executive directors of the Company received directors' fees of HK$30,000 (2002: HK$30,000) and HK$20,000 (2002: HK$30,000) respectively.

The non-executive director did not receive any fees and emoluments during the year (2002: Nil).

During the year, the executive directors received individual emoluments for the year ended 31st March 2003 of approximately HK$763,000 (2002: HK$780,000), HK$693,000 (2002: HK$744,000), and HK$120,000 (2002: HK$120,000) respectively.

No director waived or agreed to waive any of their emoluments in respect of the years ended 31st March 2003 and 31st March 2002.

(b) Five highest paid individuals

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

	Group	
	2003	2002
Directors	**2**	2
Non-directors	**3**	3
	5	5

The five individuals whose emoluments were the highest in the Group for the year include two (2002: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2002: three) individuals during the year are as follows:

	2003	2002
	HK$'000	*HK$'000*
Basic salaries, other allowances and benefits in kind	**1,131**	769
Provident fund contributions	**30**	30
	1,161	799

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

(b) Five highest paid individuals *(Continued)*

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

During the years ended 31st March 2003 and 31st March 2002, no emoluments have been paid by the Group to the two (2002: two) directors or the three (2002: three) highest paid individuals as an inducement to join the Group, or as compensation for loss of office.

11 Fixed assets

	Group			
	Leasehold improve-ments	**Plant and machinery**	**Furniture, fixtures and equipment**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost				
At 1st April 2002	1,570	23,958	88	25,616
Additions	381	265	19	665
Disposals	—	(946)	—	(946)
At 31st March 2003	**1,951**	**23,277**	**107**	**25,335**
Accumulated depreciation				
At 1st April 2002	28	7,214	21	7,263
Charge for the year	167	3,293	20	3,480
At 31st March 2003	**195**	**10,507**	**41**	**10,743**
Net book value				
At 31st March 2003	**1,756**	**12,770**	**66**	**14,592**
At 31st March 2002	1,542	16,744	67	18,353

12 Investment in a subsidiary — Company

	2003	2002
	HK$'000	*HK$'000*
Unlisted shares, at cost *(note (a))*	**13,307**	13,307
Amount due from a subsidiary *(note (b))*	**21,763**	22,006
	35,070	35,313
Less: Provision for impairment	**(16,553)**	(12,631)
	18,517	22,682

(a) The following is a list of the principal subsidiaries at 31st March 2003:

Name	**Place of incorporation and kind of legal entity**	**Principal activities and place of operations**	**Particulars of issued share capital**	**Interest held**
Held directly:				
M21 Investment Limited ("M21 Investment")	British Virgin Islands, limited liability company	Investment holding in Hong Kong	400 ordinary shares of US$1 each	100%
Held indirectly:				
M21 Mastertech Company Limited	Hong Kong, limited liability company	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 Digicast Company Limited (formerly known as M21 R&D Corporation Limited)	Hong Kong, limited liability company	Provision of audiovisual playout services on audiovisual data and provision of post-production services 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.

13 Inventories

	Group	
	2003	2002
	HK$'000	*HK$'000*
Raw materials, at cost	**202**	206

14 Accounts receivable

The Group's credit term granted to trade debtors generally ranges from 30 to 90 days. Details of the ageing analysis of accounts receivable were as follows:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Current	**466**	539
30-60 days	**579**	78
61-90 days	**198**	97
Over 90 days	**881**	163
	2,124	877
Less: Provision for doubtful debts	**(24)**	(98)
	2,100	779

15 Amount due to a subsidiary

The amount due to a subsidiary is unsecured, interest free, and has no fixed terms of repayment.

16 Amounts due from/(to) related companies

The amounts due from related companies 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.

The amounts due to related companies mainly represented trading balances due to Mei Ah Investment Company Limited ("MAI"). Relationship between MAI and the Company is summarised in note 24(vi) 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	
	2003	2002
	HK$'000	*HK$'000*
Current	**104**	162
30-60 days	**8**	192
Over 60 days	**115**	10
	227	364

18 Share capital

	Authorised	
	Ordinary shares of HK$0.01 each	
	No. of shares	*HK$'000*
At 31st March 2003 and 31st March 2002	700,000,000	7,000

	Issued and fully paid	
	Ordinary shares of HK$0.01 each	
	No. of shares	*HK$'000*
At 31st March 2003 and 31st March 2002	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.

19 Share options *(Continued)*

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 of the Company. 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

	Share premium	Accumulated losses	Merger reserve	Total
	HK$'000	*HK$'000*	*HK$'000* *(note (i))*	*HK$'000*
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
At 1st April 2002	27,783	(10,983)	(197)	16,603
Loss for the year	—	(2,266)	—	(2,266)
At 31st March 2003	27,783	(13,249)	(197)	14,337

Note

(i) The merger reserve of the Group represents 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 pursuant to the Group reorganisation on 20th March 2001 as set out in the prospectus of the Company dated 26th March 2001.

20 Reserves *(Continued)*

(b) Company

	Share premium	Accumulated losses	Contributed surplus	Total
	HK$'000	*HK$'000*	*HK$'000* *(note (i))*	*HK$'000*
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
At 1st April 2002	19,601	(13,114)	13,107	19,594
Loss for the year	—	(5,257)	—	(5,257)
At 31st March 2003	19,601	(18,371)	13,107	14,337

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 in exchange thereof pursuant to the Group reorganisation on 20th March 2001 as set out in the prospectus of the Company dated 26th March 2001. Under the Companies Act 1998 of Bermuda (as amended), 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 inflow/(outflow) from operations

	2003 HK$'000	2002 HK$'000
Operating loss	**(2,160)**	(5,532)
Interest income	**(2)**	(240)
Depreciation of fixed assets	**3,480**	3,019
(Gain)/loss on disposal of fixed assets	**(609)**	1,225
Operating profit/(loss) before working capital changes	**709**	(1,528)
Decrease/(increase) in inventories	**4**	(63)
Increase in accounts receivable	**(1,321)**	(298)
Decrease/(increase) in other receivables and deposits	**478**	(1,449)
Decrease in amounts due from related companies	**722**	939
(Decrease)/increase in accounts payable	**(137)**	217
Increase/(decrease) in other payables and accrued charges	**81**	(3,761)
Increase/(decrease) in amount due to a related company	**360**	(3,775)
Net cash inflow/(outflow) from operations	**896**	(9,718)

(b) Analysis of changes in financing

	Share capital including premium		Loan from a shareholder	
	2003 HK$'000	2002 HK$'000	2003 HK$'000	2002 HK$'000
At the beginning of year	**30,908**	31,062	**2,991**	8,741
Listing expenses	**—**	(154)	**—**	—
Repayment of loan	**—**	—	**(3,097)**	(6,000)
Interest on loan from a shareholder	**—**	—	**106**	250
At the end of year	**30,908**	30,908	**—**	2,991

22 Loan from a shareholder

During the year, the Group has fully repaid the loan due by M21 Investment to Sundowner Management Limited ("Sundowner"), a substantial shareholder of the Company, which was unsecured and beared interest at Hong Kong dollars prime lending rate plus 1.5 per cent..

23 Commitments

(a) Capital commitment for property, plant and equipment

	2003	2002
	HK$'000	*HK$'000*
Contracted but not provided for	**59**	—

(b) Commitments under operating leases

At 31st March 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2003		2002	
	Machinery	**Others**	Machinery	Others
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Not later than one year	**—**	**276**	600	276
Later than one year and not later than five years	**—**	**207**	—	483
	—	**483**	600	759

24 Related party transactions

Save as disclosed in notes 16 and 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	2003 HK$'000	2002 HK$'000
Sale of stampers and provision of pre-mastering services to Silver Kent	(i)	**2,511**	2,840
Provision of pre-mastering services to Mei Ah Video Production Company Limited ("MAVP")	(ii)	**1,983**	1,544
Rental expense of machinery paid to MAVP	(iii)	**600**	600
Interest expense paid to Sundowner	(iv)	**106**	250
Provision of audiovisual playout services and post-production services to MATV Limited ("MATV")	(v)	**3,191**	—
Rental expense of factory premise paid to MAI	(vi)	**276**	69

Notes:

(i) pursuant to the Pre-mastering Services and Stamper Supply Agreement dated 20th March 2001 and the extended agreement dated 15th May 2003, M21 Mastertech Company Limited ("Mastertech"), a subsidiary of the Company, has been appointed as a pre-mastering service provider and stamper supplier of Silver Kent for the period from 1st April 2000 to 31st March 2003 and 1st April 2003 to 31st March 2004 respectively. Silver Kent is 55 per cent. owned by Sino Regal Holding Limited ("SRH") and 45 per cent. owned by Sundowner. Both SRH and Sundowner are substantial shareholders of the Company. The transactions were conducted in the normal course of business and in accordance with the terms of the Pre-mastering Services and Stamper Supply Agreement.

(ii) pursuant to the Pre-mastering Services Agreement dated 20th March 2001 and the extended agreement dated 15th May 2003. Mastertech has been appointed as a pre-mastering service provider of MAVP, which indirectly owns the entire equity interest of Sundowner and in turn is an indirect wholly-owned subsidiary of Mei Ah Entertainment Group Limited ("Mei Ah Entertainment") for the period from 1st April 2000 to 31st March 2003 and 1st April 2003 to 31st March 2004 respectively. The transactions were conducted in the normal course of business and in accordance with the terms of the Pre-mastering Services Agreement.

24 Related party transactions *(Continued)*

Notes: (Continued)

(iii) pursuant to the leasing agreement dated 20th March 2001 (the "Leasing Agreement") and the extended agreement dated 15th May 2003, pre-mastering equipment was leased from MAVP for the period from 1st April 2000 to 31st March 2003 for a term of three years and from 1st April 2003 to 31st March 2004 for a term of one year respectively at a monthly rent of HK$50,000 or such lower sum as may be agreed between MAVP and Mastertech from time to time; the rental was determined in accordance with the Leasing Agreement.

(iv) pursuant to the Loan Agreement dated 20th March 2001, loan of approximately HK$8,741,000 was advanced by Sundowner to M21 Investment, a subsidiary of the Company, for the period from 20th March 2001 to 20th March 2004. The amount was unsecured and interest was charged at Hong Kong dollars prime lending rate plus 1.5 per cent per annum. The Group has fully repaid the loan during the year.

(v) pursuant to an agreement dated 30 March 2002 (the "Trial Agreement") entered into between M21 Digicast Company Limited ("Digicast"), a subsidiary of the Company, and MATV, a wholly-owned subsidiary of Mei Ah Entertainment, Digicast provided audiovisual playout services to MATV for distributing its TV programmes on a trial basis at a monthly fee of HK$198,000 for a five-month period from 1st April 2002 to 31st August 2002.

On 25th July 2002, Digicast and MATV entered into another agreement (the "Formal Agreement"), under which Digicast will provide (i) playout services to MATV for one or more of MATV's TV channel(s); and (ii) editing and post-production services to MATV upon request at a fee of not more than HK$50,000 per month from 1st September 2002 to 31st August 2005. During the year, Digicast provided playout services to two MATV's channels at monthly fees of HK$250,000 and HK$120,000 for the channels commencing 1st September 2002 and 1st January 2003 respectively; The post-production services provided by Digicast to MATV during the year under the Formal Agreement amounted to approximately HK$91,000.

The transactions were entered into in the normal course of business and charged in accordance with the terms of the Trial Agreement and the Formal Agreement.

(vi) Pursuant to a rental agreement dated 1st January 2002 (the "Rental Agreement"), factory premise was leased from MAI, an indirect wholly-owned subsidiary of Mei Ah Entertainment, for a period from 1st January 2002 to 31st December 2004 at a monthly rental of HK$23,000.

The transaction was entered into in the normal course of business and the rental is charged in accordance with the terms of the Rental Agreement.

25 Approval of accounts

The accounts were approved by the board of directors on 25th June 2003.

Financial Summary

	Year ended 31st March 2003 HK$'000	Year ended 31st March 2002 HK$'000	Year ended 31st March 2001 HK$'000	Period from 5th February 1999 to 31st March 2000 HK$'000
Results				
Loss attributable to shareholders	**2,266**	5,785	2,966	2,232

	As at 31st March			
	2003	2002	2001	2000
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets and liabilities				
Total assets	**19,700**	24,653	43,661	14,765
Total liabilities	**(2,238)**	(4,925)	(17,994)	(16,994)
	17,462	19,728	25,667	(2,229)

The results for the period from 5th February 1999 to 31st March 2000 and the year ended 31st March 2001, and the assets and liabilities as at 31st March 2000 have been prepared on the basis of merger accounting as if the group structure, which became effective in March 2001, had been in existence since 5th February 1999 (the earliest date of incorporation of the companies comprising the Group).

The assets and liabilities as at 31st March 2001, 2002 and 2003, and the results for the years ended 31st March 2002 and 2003 have been prepared on a consolidated basis.

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 Monday 28th July 2003 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 2003.

2. To re-elect the retiring director 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."

By order of the Board
Chan Lun Ho
Company Secretary

Hong Kong, 25th June 2003

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, G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, 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 23rd July 2003 to 28th July 2003, 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, G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration no later than 4:00 p.m. on 22nd July 2003.*

(3) *A circular containing further details regarding Resolution no. 4 as required by the GEM Listing Rules will be despatched to shareholders together with 2003 Annual Report.*