M21 Technology Limited

(Incorporated in Bermuda with limited liability)

Website: http://www.m21.com.hk

FIRST QUARTERLY REPORT 2003

Quarterly ended
30th June 2003

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.

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 2003, together with the comparative figures for the corresponding periods in 2002 as follows:

		For the three months ended 30th June	
		2003	2002
	Note	***HK$'000***	*HK$'000*
Turnover	*1*	**3,308**	2,237
Cost of sales		**(1,386)**	(1,686)
Gross profit		**1,922**	551
Other revenues	*1*	**—**	612
General, administrative and other expenses		**(1,820)**	(1,571)
Operating profit/(loss)		**102**	(408)
Finance costs		**—**	(28)
Profit/(loss) attributable to shareholders		**102**	(436)
Basic earnings/(loss) per share	*3*	**0.03 cents**	(0.14 cents)

Notes:

1. **Revenues and turnover**

The Group is principally engaged in the manufacture and sale of stampers for audiovisual products, the provision of pre-mastering and media services and the provision of play-out services. Revenues recognised during the three months ended 30th June 2003 are as follows:

	For the three months ended 30th June	
	2003	2002
	HK$'000	*HK$'000*
Turnover		
Discontinuing operation *(note 4)*		
Sales of stampers for audiovisual products	**1,016**	1,395
Continuing operations		
Provision of pre-mastering and other media services	**942**	248
Provision of playout services	**1,350**	594
	3,308	2,237
Other revenue		
Interest income	**—**	3
Profit on disposal of fixed assets	**—**	609
Total revenues	**3,308**	2,849

2. **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 2003 (2002: Nil).

3. **Earnings/(loss) per share**

The calculation of basic earnings per share for the three months ended 30th June 2003 was based on the Group's profit attributable to shareholders of approximately HK$102,000 (2002: loss of approximately HK$436,000) and on 312,500,000 (2002: 312,500,000) ordinary shares in issue during the period.

Diluted earnings/(loss) per share for the three months ended 30th June 2003 and 2002 were not presented because there were no dilutive potential ordinary shares.

4. **Discontinuing operation**

Pursuant to an agreement dated 29th July 2003, M21 Mastertech Company Limited ("Mastertech"), a wholly-owned subsidiary of the Company, will dispose its ODC mastering System and ancillary equipment on 1st September 2003 at a consideration of HK$5,900,000. After the completion of the transaction, the Group will terminate its mastering operation. Accordingly, the results of which were classified as discontinuing operation.

For the three months ended 30th June 2003, the loss from the discontinuing operation is approximately HK$470,000 (2002: HK$550,000).

Details of the transaction have been set out in the announcement dated 8th August 2003.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the three months ended 30th June 2003 (2002: Nil).

BUSINESS REVIEW

For the three months ended 30th June 2003, the Group recorded a turnover of approximately HK$ 3,308,000 (2002: approximately HK$2,238,000) and a profit attributable to shareholders of approximately HK$102,000 (2002: a loss of approximately HK$436,000), the first profitable result of the Group since its listing on the Hong Kong GEM Board.

The increase in turnover during the first quarter, when compared with the previous corresponding period, was mainly attributable to the successful launch of the new playout services, the sales of which amounted to approximately HK$1,350,000 (2002: HK$594,000) and represented a growth by 127% and accounted for approximately 41% (2002: 27%) of the Group's total turnover.

The playout service also brought in other ancillary services such as pre-mastering and post-production services. For the three months ended 30th June 2003, income from pre-mastering and post-production services recorded a turnover of approximately HK$942,000 (2002: approximately HK$248,000), represented a growth by 280% and accounted for approximately 28% (2002: 11%) of the Group's total turnover.

During the period under review, the income from mastering service was plunged to approximately HK$1,016,000 (2002: approximately HK$1,395,000) due to the weak economic conditions and the outbreak of the Severe Acute Respiratory Syndrome ("SARS") epidemic in the second quarter of 2003. As the local sales was weak during the period, the sales from India accounted for 29% of the mastering income, whilst the remaining 71% was derived from Hong Kong and PRC.

During the period under review, the Group generated a gross profit of approximately HK$1,922,000 (2002: approximately HK$551,000), representing a soar of approximately 250%. Given that the turnover increased by approximately 48% compared to last year, the gross profit margin experienced a sharp rise from 25% to 58%.

The increase in gross profit margin was attributable to the comparatively higher margin of the new income stream of the pre-mastering, post-production and playout services. On the other hand, the SARS has an adverse impact on the mastering industry.

The sales derived from our single largest customer represented approximately 39% of the Group's total sales, and the sales derived from our single largest customer in mastering services decreased slightly to 29% (2002: 38%) due to the general drop in total orders during the period under review.

Though the general business environment remains sluggish during the period under review, the Directors believe that the Group should focus on developing audiovisual technology which is our core business and in line with the Group's long-term strategy as a whole. The positive results shown in this quarter proved that the Group is pursuing the correct strategy and direction. The Directors are optimistic of the continual growth and profitability of the Group in the next quarter, in light of expected economic rebound after the SARS crisis.

BUSINESS PURSUITS/PROSPECTS

During the period under review, both the PRC and Hong Kong had an outbreak of SARS. Like other industries, the mastering sector has been adversely affected by SARS. However, the Directors believe that the impact of SARS on the Group's business is only temporary and expect that the mastering business would be back to normal by the next quarter.

Despite the adverse impact of SARS on the mastering business, the turnover of the Group derived from providing pre-mastering, post-production and playout services (collectively known as "media services") has been increasing continuously. The media services were empowered by the acquisition of POWER TV equipment in February 2002 and the Group has been setting up the facilities progressively to build up a digitized platform, which provides the Group with new sources of income and enables the Group to pursue its development strategy.

Due to the capital-intensive nature of the media services that creates high entry barrier, the Directors believe that the sector will be less competitive but remain profitable as shown by the profit margin of approximately 74% during the period under review. Such margin was mainly attributable to the provision of playout service with considerable ancillary bundle of pre-mastering and post-production services.

The Group's penetration into the media services since April 2002 has generated a new income stream for the Group. By the end of the first quarter, the Group was managing four playout channels and has been well received by the market. In the coming months, more and more channels will be rolled-out by the Pay TV license holders and broadband operators. To provide some of these channels with our services, the Group has been in negotiation with the content providers. Despite our scalable playout capability, the Group believes that our competitive advantages lie in the ancillary bundle of pre-mastering and post-production services. As such, our target customer group extends from content providers to channel/platform operators, and the Directors are confident that our services are flexible enough to suit their individual needs. As long as there is strong demand, the Group will continuously set up facility from the POWER TV equipment to meet with the needs and generate new source of income. Given the establishing digitised platform which provides new source of income and strengthens the pre-mastering function and media services as a whole, the Group is confident that it could become a market leader in the provision of pre-mastering service in Hong Kong.

However, as the general economic outlook is still sluggish despite the recent business rebound after the SARS crisis, the Group will continue its cautious approach in the future. The recent signing of the Closer Economic Partnership Arrangement ("CEPA") between Hong Kong and the PRC may bring long-term but not immediate benefits to the Group's current business. Although the local market remains comparatively weak, the Directors are of the view that the Group will take the opportunity to consolidate and strengthen its business and asset base that will generate promising returns in the future.

As part of the Group's development strategies, the Group has been focusing on the audiovisual transmission technology. The Directors are of the view that the mastering business has stronger synergy with the optical disc manufacturing than audiovisual production and transmission. In order to pursue the Group's objectives and strategy to penetrate into the audiovisual industry, the Group announced on 8th August 2003 that it proposed to sell the mastering lines to Silver Kent Technology Limited [1] ("SKT") for a consideration of HK$5,900,000, and will use the cash generated from asset disposal to acquire broadcasting, pre-mastering and post-production equipment from Mei Ah Video Production Limited [2] ("MAVP"), for a consideration of HK$5,700,000. While acquiring these equipment from MAVP, the Group is able to concentrate in providing audiovisual related transmission and production services such as playout, pre-mastering and post-production etc. The Group will also enter into an Agreement with Mei Ah (HK) Company Limited [2] ("MAHK"), to provide them with pre-mastering, post-production and other services including telecine, compression, encoding, authoring, translation, sub-titling and editing during the period from 1st September 2003 to 31st March 2006, details of which are set out in our announcement dated 8th August 2003.

The Directors believed that the proposed restructuring will not only streamline the Group's resources to achieve the current business pursuit of the Group, it also helps to rebuild the image of the Group and will also open up channels to various types of business opportunities for the Group to sustain profitable. The management will strive to capture every opportunity to leverage and capitalize the remarkable success on media services, which in return would benefit the Company and its shareholders as a whole.

Notes:

1. SKT is a company with limited liability incorporated in Hong Kong whose equity is 45% and 55% owned by Sundowner Management Limited ("Sundowner") and Sino Regal Holding Limited ("SRH") respectively. Sundowner and SRH are substantial shareholders of the Company holding 29.25% and 35.75% equity interests respectively, and Sundowner is an indirect wholly owned subsidiary of Mei Ah Entertainment Group Limited ("MAEGL"), the shares of which are listed on the Main Board of the Stock Exchange and indirectly holds 29.25% effective shareholding interest in the Company.

2. MAVP and MAHK are companies incorporated in Hong Kong and wholly owned subsidiaries of MAEGL.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 30th June 2003, the interests of the directors and chief executives in the shares of the Company (within the meaning of the Securities and Future Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO 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	*(note (a))* 111,718,750	—
Mr. CHAN Kwok Sun, Dennis	—	—	*(note (a))* 111,718,750

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.

Save as disclosed above, as at 30th June 2003, 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 SFO.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 30th June 2003, the Company had been notified of the following substantial shareholders' interests, being 5% 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

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 30th June 2003, Kuo Hsing Holdings Limited is interested in approximately 52.36% 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 336 of the SFO as at 30th June 2003.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its listed securities during the three months ended 30th June 2003. 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 2003.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

None of the directors of the Company is aware of any information which would indicate that the Group is not, or was not, in compliance with the Code of Best Practice as set out in Rules 5.28 to 5.39 of the GEM Listing Rules at any time during the three months ended 30th June 2003.

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. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control of the Group.

On Behalf of the Board
Tong Hing Chi
Chairman

Hong Kong, 13th August 2003