M21 Technology Limited

(Incorporated in Bermuda with limited liability)

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

THIRD QUARTERLY REPORT
2003

Quarterly ended

31st December 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.

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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.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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.

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 and nine months ended 31st December 2003, together with the comparative figures for the corresponding periods in 2002 as follows:

	Notes	Three months ended 31st December		Nine months ended 31st December	
		2003	2002	**2003**	2002
		HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Turnover	*1*	**2,770**	3,689	**9,443**	8,683
Cost of sales		**(1,033)**	(2,430)	**(3,972)**	(6,170)
Gross profit		**1,737**	1,259	**5,471**	2,513
Other revenue	*1*	**—**	2	**—**	2
Profit on disposal of fixed assets		**—**	—	**1,447**	609
General, administrative and other expenses		**(1,529)**	(1,660)	**(4,866)**	(4,728)
Operating profit/(loss)		**208**	(399)	**2,052**	(1,604)
Interest expenses		**—**	(35)	**—**	(165)
Profit/(loss) attributable to shareholders		**208**	(434)	**2,052**	(1,769)
Basic earnings/(loss) per share	*3*	**0.07 cent**	(0.14 cent)	**0.66 cent**	(0.57 cent)

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 other media services and the provision of audiovisual playout services. Revenues recognised during the three months and nine months ended 31st December 2003 are as follows:

	For the three months ended 31st December		For the nine months ended 31st December	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Turnover				
Continuing operations				
Provision of pre-mastering and other media services	**1,358**	1,758	**3,426**	2,588
Provision of audiovisual playout services	**1,412**	750	**4,142**	1,990
Discontinued operation *(note 4)*				
Sales of stampers for audiovisual products	**—**	1,181	**1,875**	4,105
	2,770	3,689	**9,443**	8,683
Other revenue				
Interest income	**—**	2	**—**	2
Total revenues	**2,770**	3,691	**9,443**	8,685

2. Taxation

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profit during the three months and nine months ended 31st December 2003 (2002: Nil).

3. Earnings/(loss) per share

The calculation of basic earnings/(loss) per share for the three months and nine months ended 31st December 2003 was based on the Group's profit attributable to shareholders of approximately HK$208,000 and approximately HK$2,052,000 respectively (2002: losses of HK$434,000 and HK$1,769,000 respectively) 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 and nine months ended 31st December 2003 and 2002 were not presented because there were no dilutive potential ordinary shares.

4. Discontinued operation

Pursuant to an agreement dated 29th July 2003, M21 Mastertech Company Limited ("Mastertech"), a wholly-owned subsidiary of the Company, has disposed its ODC Mastering System and ancillary equipment on 1st September 2003 at a consideration of HK$5,900,000. The gain arising on the disposal amounted to approximately HK$1,447,000. After the completion of the transaction, the Group has terminated its mastering operation. Accordingly, the results of which were classified as discontinued operation.

For the three months and nine months ended 31st December 2003, excluding the gain on disposal of fixed assets as aforesaid, the results from the discontinued operation was nil (2002: loss of approximately HK$406,000) and a loss of approximately HK$505,000 (2002: approximately HK$1,489,000) respectively, while the results from the continuing operations was a gain of approximately HK$734,000 (2002: approximately HK$1,532,000) and HK$2,589,000 (2002: approximately HK$2,322,000) respectively.

Details of the transaction have been set out in the circular of the Company dated 15th August 2003.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the three months and nine months ended 31st December 2003 (2002: Nil).

BUSINESS REVIEW

For the nine months ended 31st December 2003, the turnover of the Group was approximately HK$9,443,000 (2002: approximately HK$8,683,000) while the profit attributable to shareholders was approximately HK$2,052,000 (2002: loss of approximately HK$1,769,000).

The increase of turnover for the nine months ended 31st December 2003, compared with the corresponding period in 2002, was mainly attributable to the increase of number of audiovisual playout channels being operated and the related post-production that arose. For the nine months ended 31st December 2003, the turnover from the provision of audiovisual playout service was around HK$4,142,000 (2002: HK$1,990,000), a substantial growth of approximately 208% when compared with the corresponding period in 2002 and accounted for approximately 44% (2002: approximately 23%) of the Group's turnover.

For the nine months ended 31st December 2003, the Group generated a gross profit of approximately HK$5,471,000 representing a gross profit margin of approximately 58% (2002: approximately HK$2,513,000, representing a gross profit margin of approximately 29%), a remarkable growth of 200%. Such encouraging result was due to the fact that the gross profit from the provision of audiovisual playout service and post-production service, which have become main income streams to the Group since mid of 2002, are inherently higher. The disposal of mastering business, which was running in losses previously, also contributed to the increase in gross profit margin of the Group.

The turnover derived from our single largest customers with respect to the Group's total turnover was approximately 42% (2002: approximately 30%), such increase was due to the reduction in the number of customers, as a result of the disposal of mastering business.

During the quarter under review, the general business climate has been recovering from the trough and is expected to sustain. Such recovery, together with the positive financial result shown in this quarter, provided the grounds for the Directors to be optimistic towards the Group's profitability in the coming year.

BUSINESS PURSUITS/PROSPECTS

Following the disposal of the mastering business on 1st September 2003, the Group has been focusing on its new core business — the provision of audiovisual services including playout, pre-mastering and post-production services. The Directors are of the view that the resources can be used and allocated more efficiently to provide high quality services.

Year 2004 will mark a new era in the TV broadcasting industry as certain Pay TV channels will be rolled-out by the Pay TV license holders and broadband operators. The Group targeted to seize the arising of every opportunity in order to maximize the production capacity and profitability of its playout service, and the ancillary bundle of pre-mastering and post-production services.

The Directors are confident that the Group has already accumulated sufficient experience in the past two years to cope with the present demand in audiovisual services. With the competitive advantages of possessing ancillary bundle of pre-mastering and post-production services, the Directors are of the view that the number of channels that under the Group's management will soon exceed the current five channels. The Group has set ready the facility including those acquired from POWER TV in mid 2002 to meet with the potential increasing number of channels.

Though the Directors are optimistic with the opportunities brought by the new Pay TV market, the long term effect would be too soon to validate, especially under the shadow of bird flu and SARS which may contribute uncertain risk factor to the market. In this regard, the Directors will closely monitor the progress and will endeavour the best to adapt to the dynamic changing market environment.

The Group has set its development strategy clear after the disposal of the mastering business — to focus on audiovisual transmission technology. The management will strive to capture every opportunity to leverage and capitalize the remarkable success on this end, which in return would be in the best interest of the Company and its shareholders as a whole.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 31st December 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 31st December 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 31st December 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 31st December 2003, Kuo Hsing Holdings Limited is interested in approximately 52.4 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 31st December 2003.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its listed securities during the nine months ended 31st December 2003. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the nine months ended 31st December 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 nine months ended 31st December 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, 12th February 2004