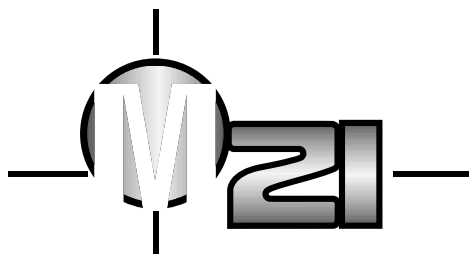


M21 Technology Limited

(Incorporated in Bermuda with limited liability)

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



FIRST QUARTERLY REPORT 2004

Quarterly ended
30th June 2004

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.

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.

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 2004, together with the comparative figures for the corresponding periods in 2003 as follows:

	Note	For the three months ended 30th June	
		2004 HK\$'000	2003 HK\$'000
Turnover	1	2,938	3,308
Cost of sales		<u>(1,343)</u>	<u>(1,386)</u>
Gross profit		1,595	1,922
General, administrative and other expenses		<u>(1,413)</u>	<u>(1,820)</u>
Profit attributable to shareholders		<u>182</u>	<u>102</u>
Basic earnings per share	3	<u>0.06 cents</u>	<u>0.03 cents</u>

Notes:

1. Revenues and turnover

The Group is principally engaged in the provision of pre-mastering and media services and the provision of audiovisual play-out services. Revenues recognised during the three months ended 30th June 2004 are as follows:

	For the three months ended 30th June	
	2004 HK\$'000	2003 HK\$'000
Turnover		
Continuing operations		
Provision of pre-mastering and other media services	1,198	942
Provision of audiovisual playout services	1,740	1,350
Discontinuing operation (note 4)		
Sales of stampers for audiovisual products	—	1,016
	<u>2,938</u>	<u>3,308</u>

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 2004 (2003: Nil).

3. Earnings per share

The calculation of basic earnings per share for the three months ended 30th June 2004 was based on the Group's profit attributable to shareholders of approximately HK\$182,000 (2003: approximately HK\$102,000) and on 312,500,000 (2003: 312,500,000) ordinary shares in issue during the period.

Diluted earnings per share for the three months ended 30th June 2004 and 2003 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, a wholly-owned subsidiary of the Company, disposed of its mastering system and ancillary equipment on 1st September 2003 at a consideration of HK\$5,900,000. Upon completion of the transaction, the Group has terminated its mastering operation. Accordingly, for the three months ended 30th June 2004, the turnover and profit attributable to shareholders is solely arisen from the continuing operations.

5. Acquisition

Pursuant to the sale and purchase agreement dated 19th May 2004, the Group has conditionally agreed to acquire from two independent third parties (the "Vendors") the entire issued share capital of Sky Dragon Digital Television and Movies Limited ("Sky Dragon") for a cash consideration of HK\$5,000,000.

Sky Dragon is an investment holding company and its sole asset is 70% interest in Hunan Digital Television Technology Company Limited ("Hunan Digital"), which is a Sino-foreign cooperative joint venture in the People's Republic of China and engaged in the development of digital set-top boxes and the system platform for the digital television network and the provision of the related technical support services to Hunan Provincial Television Network Company Limited ("Hunan TV"), an independent third party. The Group has agreed to grant 30,000,000 options to subscribe for shares of the Company at an exercise price of HK\$0.788 per share to one of the Vendors provided that a technical support service agreement between Hunan Digital and Hunan TV can be entered into within three months from the completion of the sale and purchase agreement as mentioned above.

The above transaction has been approved by the shareholders of the Company pursuant to the special general meeting held on 13th July 2004 and is pending for the fulfillment of certain other conditions to completion.

Details of the transaction have been set out in the circular dated 28th June 2004.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the three months ended 30th June 2004 (2003: Nil).

BUSINESS REVIEW

For the three months ended 30th June 2004, the Group recorded a turnover of approximately HK\$2,938,000 (2003: approximately HK\$3,308,000) and a profit attributable to shareholder of approximately HK\$182,000 (2003: approximately HK\$102,000), representing consecutive profitable periods since the first-profit making period in first quarter results of Year 2003-2004.

For the three months ended 30th June 2004, income from pre-mastering and media services ("Media Services") accounted for approximately 41% (2003: approximately 28%) of the Group's turnover. Such increase was mainly attributable to the restructuring of the Group on 1st September 2003 in which the Group has acquired certain pre-mastering and post-production equipment from Mei Ah Video Production Company Limited ("MAVP"), a related company at the time of acquisition. After such acquisition, the diversity and capacity of the Group's post-production services has been greatly enhanced.

Income from the provision of audiovisual playout services ("Playout Services") accounted for approximately 59% (2003: approximately 41%) of the Group's turnover and has been increased in line with the number of playout channels operated.

Pursuant to the restructuring of the Group on 1st September 2003, all mastering machinery had been disposed to Silver Kent Technology Limited, a related company, therefore, there was no turnover from mastering business for the three months ended 30th June 2004 (2003: approximately HK\$1,016,000).

The Group has generated a remarkable gross profit of approximately HK\$1,595,000 (2003: approximately HK\$1,922,000) out of a total turnover of approximately HK\$2,938,000 (2003: approximately HK\$3,308,000) during the period. Due to the capital-intensive nature of the media services market and the playout market, the Directors believe that the sector will be less competitive and therefore profitable as shown by the profit margin of approximately 54%. Such high margin was due to that the provision of Playout Services usually bring along with considerable ancillary bundle of Media Services.

During the period under review, profit attributable to shareholder was approximately HK\$182,000 (2003: approximately HK\$102,000), an increase of approximately 78%, mainly due to the disposal of the mastering business which was suffering from continuous losses.

On 19th May 2004, the Group has conditionally agreed to acquire the entire issued share capital of Sky Dragon Digital Television and Movies Limited ("Sky Dragon") for a cash consideration of HK\$5,000,000 (the "Acquisition"). The subsidiary of Sky Dragon is engaged in the development of digital set-top boxes and system platform for digital television network and the provision of related technical support services. Such acquisition represents an excellent opportunity for penetrating into the media industry of the Peoples Republic of China (the "PRC") since PRC is launching digital TV network nationwide in the following 10 years, which in turn will cause the demand for the related technical support services to grow dramatically.

The Acquisition is still pending the fulfillment of certain other conditions to reach completion, therefore, the results of Sky Dragon has not been consolidated into the first quarter results. Details of the Acquisition has been set out in the circular dated 28th June 2004.

BUSINESS PURSUITS AND PROSPECTS

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

A concrete step taken to realise the above strategy was the acquisition of Sky Dragon as mentioned above. At present, the PRC government is in the process of launching the digital television network to completely phase out the prevailing analog television network gradually across the country by Year 2015. It is expected that from 2005 to 2008, the cable television networks in the direct-controlled cities and provinces in the eastern, middle and western parts of the PRC will be digitalised and the number of digital television network subscribers will reach 30 million in 2005. With such large hinterland, immense population, encouraging government policy, the Directors are optimistic and confident about the future of the digital television market in PRC.

The turnover arose from our core business, Media Services and Playout Services, have been shooting up continuously, despite the worldwide economic doom since our listing on GEM in 2001. Our media services has been enabled and enhanced by the continuous acquisition of relevant equipment and most recently, from MAVP as mentioned before, which has proven to be successful and in line with the Group's development strategy. For Playout Services, our initial appearance in this market was on April 2002, managing one playout channel, since then the number of playout channels that we are managing has been climb up to eight on June 2004. Such increase has brought along with considerable ancillary bundle of post-production services.

The 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 opening up of Cable, Satellite and Pay Television in Hong Kong, and the popularisation of broadband network, the demand for audiovisual contents increases rapidly. More and more broadcasters, operators and content owners formed business ventures to deliver audiovisual contents to end users and they require well-prepared programmes. The Directors are of an optimistic view that there will be a rapid growth in a variety of programme channel transmitting in digital signal format. The Directors believed that it is a good opportunity to capitalise on its expertise and experience in audiovisual technology, and to pursue the concept of providing media service as a whole. The Group will continue to invest in our media service and digitized platform to satisfy the growing demand.

The Group has successfully generated new lines of revenue stream and will endeavour its best effort in keep negotiating with the channel operators and exploring more business opportunities.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30th June 2004, the interests and short positions of the directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (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	111,718,750 <i>(note (a))</i>	—
Mr. CHAN Kwok Sun, Dennis	—	—	111,718,750 <i>(note (a))</i>

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, the directors do not have any interests or short positions in the shares of the Company.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 30th June 2004, the Company had been notified of the following substantial shareholders' interests and short positions, 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

Pursuant to the Placing Agreement dated 4th May 2004, Sundowner Management Limited ("Sundowner"), a substantial shareholder of the Company immediately before the placing, has placed 91,406,250 shares to independent investors at a placing price of HK\$0.28 per share. Such placing represented 29.25% of the issued share capital of the Company immediately before the placing. Upon completion of the placing on 7th May 2004, Sundowner has disposed of its entire interest in the Company and Sundowner, Mei Ah (China) Company Limited, Mei Ah Video Production Company Limited, Mei Ah Holdings Limited, Mei Ah Entertainment Group Limited, Kuo Hsing Holdings Limited and Mr. Li Kuo Hsing ceased to be the substantial shareholders of the Company.

Save as disclosed above, the Company had no notice of any interests and short positions to be recorded under Section 336 of the SFO as at 30th June 2004.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its listed securities during the three months ended 30th June 2004. 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 2004.

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 5.34 to 5.45 of the GEM Listing Rules at any time during the three months ended 30th June 2004.

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

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

As of the date of this report, the executive directors are Mr. Tong Hing Chi and Mr. Law Kwok Leung, the non-executive director is Mr. Chan Kwok Sun, Dennis and the independent non-executive directors are Mr. Sousa Richard Alvaro and Mr. Chang Carl.

Hong Kong, 5th August 2004