M21 Technology Limited

(Incorporated in Bermuda with limited liability)

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

THIRD QUARTERLY REPORT
2004

Quarterly ended

31st December 2004

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

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

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

		Three months ended 31st December		**Nine months ended 31st December**	
		2004	2003	**2004**	2003
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover	*1*	**3,309**	2,770	**9,335**	9,443
Cost of sales		**(2,711)**	(1,033)	**(5,987)**	(3,972)
Gross profit		**598**	1,737	**3,348**	5,471
Profit on disposal of fixed assets		**—**	—	**—**	1,447
General, administrative and other expenses		**(4,409)**	(1,529)	**(8,473)**	(4,866)
Operating (loss)/profit		**(3,811)**	208	**(5,125)**	2,052
Interest expenses		**(208)**	—	**(287)**	—
(Loss)/profit attributable to shareholders		**(4,019)**	208	**(5,412)**	2,052
Basic (loss)/earnings per share	*3*	**(1.29 cent)**	0.07 cent	**(1.73 cent)**	0.66 cent

Notes:

1. **Revenues and turnover**

The Group is principally engaged in the provision of pre-mastering and other media services, the provision of audiovisual playout services in Hong Kong and the development of digital television system platform and provision of related service, sales and rental of set-top boxes, development of program database, design and manufacture of digital television equipment and facilities in the People's Republic of China ("PRC") (collectively known as "TV digitalisation related services").

	For the three months ended 31st December		**For the nine months ended 31st December**	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Turnover				
Continuing operations				
Provision of pre-mastering and other media services	**1,309**	1,358	**4,040**	3,426
Provision of audiovisual playout services	**1,758**	1,412	**5,053**	4,142
Provision of TV digitalisation related services	**242**	—	**242**	—
Discontinued operation *(note 5)*				
Sales of stampers for audiovisual products	**—**	—	**—**	1,875
	3,309	2,770	**9,335**	9,443

2. **Taxation**

No provision for Hong Kong profits tax and PRC enterprise income tax have been made as the Group had no estimated assessable profit during the three months and nine months ended 31st December 2004 (2003: Nil).

3. **(Loss)/earnings per share**

The calculation of basic (loss)/earnings per share for the three months and nine months ended 31st December 2004 was based on the Group's loss attributable to shareholders of approximately HK$4,019,000 and approximately HK$5,412,000 respectively (2003: profit of HK$208,000 for the three months ended 31st December 2003 and HK$2,052,000 for the nine months ended 31st December 2003) and on 312,500,000 (2003: 312,500,000) ordinary shares in issue during the period.

Diluted (loss)/earnings per share for the three months and nine months ended 31st December 2004 and 2003 were not presented because there were no dilutive potential ordinary shares.

4. **Reserves**

Movements in reserves for the nine months ended 31st December 2004 and 2003 are as follows:

	Share premium	**Accumulated losses**	**Merger reserve**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1st April 2004	27,783	(11,675)	(197)	15,911
Loss for the period	—	(5,412)	—	(5,412)
At 31st December 2004	**27,783**	**(17,087)**	**(197)**	**10,499**
At 1st April 2003, as restated	27,783	(13,519)	(197)	14,067
Profit for the period	—	2,052	—	2,052
At 31st December 2003	27,783	(11,467)	(197)	16,119

5. **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 and nine months ended 31st December 2004, the turnover and (loss)/profit attributable to shareholders is solely arisen from the continuing operations.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the three months and nine months ended 31st December 2004 (2003: Nil).

BUSINESS REVIEW

Completion of Acquisition of Hunan Digital

On 26th August 2004, the Group has acquired 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"). Hunan Digital Television Technology Company Limited ("Hunan Digital"), a 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 in the People's Republic of China (the "PRC").

The post-acquisition results of Sky Dragon and Hunan Digital ("Sky Dragon Group") are consolidated into the Group's results for the nine months ended 31st December 2004. The Directors regarded the Acquisition as an excellent timing to penetrate into the media industry of the PRC, where huge opportunities will be generated during the launch of digital television network nationwide in the following 10 years, which in turn will create demands for the related services to grow dramatically.

Continuing Connected Transactions

Hunan Digital has entered into a Technical Support Agreement and a Supplemental Agreement (the "Agreements") on 2nd August 2004 and 26th August 2004 respectively with Hunan Provincial Television Network Company Limited ("Hunan TV") in which Hunan Digital will provide digitalisation-related technical support services and packed TV programs to Hunan TV. As Hunan TV owns 30% interest of Hunan Digital, the transactions under the Agreements constitutes Continuing Connected Transactions (the "Transactions") under the GEM Listing Rules. Independent shareholders' approval for the Transactions has been obtained through the special general meeting held on 20th November 2004. Details of the Transactions have been set out in the Circular dated 4th November 2004.

Financial review

For the nine months ended 31st December 2004, the Group recorded a turnover of approximately HK$9,335,000 (2003: approximately HK$9,443,000). Such decrease is due to the effect of termination of mastering business in September 2003 (turnover from mastering business in 2003 was approximately HK$1,875,000) and compensated by the increased turnover from playout, pre-mastering and post-production services.

Income from the provision of audiovisual playout services ("Playout Services") accounted for approximately 54% (2003: approximately 44%) of the Group's turnover and has been increased as a result of continual increase in the number of playout channels operated, from five in 2003 to ten at present.

Income from pre-mastering and other media services ("Media Services") accounted for approximately 43% (2003: approximately 36%) of the Group's turnover. Such increase was in line with the increased playout channels operated as mentioned above. The acquisition of certain pre-mastering and post-production equipment in 2003, which increased the diversity and capacity of the provision of Media Services, also contributed to such increase.

The Group has generated a gross profit of approximately HK$3,348,000 (2003: approximately HK$5,471,000) out of a total turnover of approximately HK$9,335,000 (2003: approximately HK$9,443,000) during the nine-month period. The gross profit margin has been decreased from 58% in 2003 to 36% in the current period, partially due to discount granted to a customer whose number of playout channels operating with us was continuously increasing, and also to the fact that minimal income was generated from Sky Dragon Group due to the infant stage of operation while certain direct costs were incurred during such operation.

During the period under review, loss attributable to shareholder was approximately HK$5,412,000 (2003: profit of approximately HK$2,052,000). Such loss was mainly attributable to the operation of Sky Dragon Group, which is still in its initial phase and certain capital expenditure and set-up expenses are required. However, the Directors believe that such loss will be diminished following the generation of income by Sky Dragon Group since the fourth quarter of 2004.

BUSINESS PURSUITS AND PROSPECTS

The Group has kept focusing on 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.

To realise the above strategy, the Group has acquired Sky Dragon Group in order to expand its business scope in the PRC and grabbed the opportunities of network digitalisation as and when it arises. 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 especially after the signing of the Agreements with Hunan TV which substantially improves the profitability of the Group.

Hunan TV, the authorised digital television network operator in Hunan Province, owns and operates a fibre optic trunk network covering 14 major districts in Hunan (the "First Tier Network"). The First Tier Network is connected to fibre optic trunk networks in 108 cities and counties in Hunan (the "Second Tier Network"). The First Tier Network and the Second Tier Network together form a nation-wide cable television network in Hunan, covering over 4 million households in the territory which is the source of income of Hunan Digital by virtue of sharing of the subscription fee from these households with Hunan TV after deducting a fee to Second Tier Network Operators. In order to provide digital television services to subscribers, the Second Tier Network Operators must enter into agreement with Hunan TV on the sharing of subscription fee. As required to be disclosed by the Circular dated 4 November 2004, the number of Second Tier Network Operators who has not yet reached agreement with Hunan TV is 87.

The income from our core business, Media Services and Playout Services, has been increasing continuously due to the increase in number of playout channels. The boom in Pay TV industry in 2004 has created demand for the Group to increase service capacity and in turn generated opportunities for the Group to take on more channels at an optimal cost. Media Services being an ancillary service to the playout channels, income from Media Services also increased. The success in grabbing opportunities arises from the Playout Services market contributed to the correct pursuit of development strategy and visions of the management. In fact, our initial appearance in the Playout Services market was on April 2002 and was managing one playout channel only, since then the number of playout channels that we are managing has been climbed up to ten on December 2004. Such increase has brought along with considerable ancillary bundle of Media Services.

The management has continued to evaluate the dynamics of the operating environment in order to carve and identify growth opportunities within the audiovisual market. As the Pay TV market has been getting more complicated with the emergence of broadband network, the demand for audiovisual contents as well as its quality increases dramatically. While more Pay TV operators are continually enhancing the range and quality of delivered audiovisual contents, the Directors are of an optimistic view that the increase in servicing capacity in digital format will meet the growth in such demand. 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 further anticipated that our increased capacity of media service and digitalised platform will soon be utilised in full and thus have been continually invested in our Media Services and digitalised platform to satisfy the growing demand.

The Group, with its growing and successful core business, will endeavour its best effort in keeping its established brand in Hong Kong and will also adopt an aggressive approach towards the bright digital television market in the PRC.

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

As at 31st December 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	80,000,000 *(note (a))*	—
Mr. CHAN Kwok Sun, Dennis	—	—	80,000,000 *(note (a))*

Note:

(a) 80,000,000 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 31st December 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	80,000,000	25.6
Sino Unicorn Technology Limited ("Sino Unicorn")	31,718,750	10.15
Random Services Limited ("Random Services") *(note (a))*	31,718,750	10.15
Yang Fuguang *(note (a))*	31,718,750	10.15
Feng Xiao Ping *(note (b))*	31,718,750	10.15

Notes:

(a) Sino Unicorn is 51% and 49% owned by Random Services and Yang Fuguang respectively. The shares referred to herein relate to the same parcel of shares held by Sino Unicorn.

(b) Random Services is wholly-owned by Feng Xiao Ping. The shares referred to herein relate to the same parcel of shares held by Sino Unicorn.

Save as disclosed above and "Directors' and Chief Executives' interests and short positions in the shares, underlying shares and debentures of the company or any associated corporation", the Company had no notice of any interests and short positions to be recorded under Section 336 of the SFO as at 31st December 2004.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its listed securities during the three months and nine months ended 31st December 2004. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the three months and nine months ended 31st December 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 and nine months ended 31st December 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 three 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, Mr. Carl Chang and Mr. Ngai Wai Fung. 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, Mr. Law Kwok Leung and Ms. Fan Wei, the non-executive director is Mr. Chan Kwok Sun, Dennis and the independent non-executive directors are Mr. Sousa Richard Alvaro, Mr. Chang Carl and Mr. Ngai Wai Fung.

Hong Kong, 7th February 2005