M21 TECHNOLOGY LIMITED

Incorporated in Bermuda with Limited Liability

ANNUAL REPORT 2005

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.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Tong Hing Chi *(Chairman)*
Mr. Law Kwok Leung *(CEO)*
Mr. Feng Xiao Ping
Ms. Fan Wei

Non-Executive Director

Mr. Chan Kwok Sun, Dennis

Independent Non-Executive Directors

Mr. Chang Carl
Mr. Sousa Richard Alvaro
Mr. Ngai Wai Fung

COMPLIANCE OFFICER

Mr. Law Kwok Leung

COMPANY SECRETARY

Mr. Chan Lun Ho

AUTHORISED REPRESENTATIVES

Mr. Tong Hing Chi
Mr. Law Kwok Leung

QUALIFIED ACCOUNTANT

Mr. Sit Hon Wing, *AHKSA, ACCA*

AUDIT COMMITTEE

Mr. Sousa Richard Alvaro
(Chairman of the audit committee)
Mr. Chang Carl
Mr. Ngai Wai Fung

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

1/F., Mei Ah Centre
28 Chun Choi Street
Tseung Kwan O Industrial Estate
Kowloon, Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Belgian Bank

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

CCIF CPA Limited
Certified Public Accountants, Hong Kong

LEGAL ADVISERS

As to Bermuda Law:

Conyers Dill & Pearman

As to Hong Kong Law:

Sidley Austin Brown & Wood

STOCK CODE

8153

WEBSITE OF THE COMPANY

www.m21.com.hk

Chairman's Statement

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 31 March 2005.

BUSINESS REVIEW

Acquisition of Hunan Digital

On 26 August 2004, the Group completed the acquisition of 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"). 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 its subsidiary ("Sky Dragon Group") has been consolidated into the Group's results for the year ended 31 March 2005. Details of the Acquisition has been set out in the circular dated 28 June 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 Television Technology Company Limited ("Hunan Digital"), a subsidiary of Sky Dragon, has entered into a Technical Support Agreement and a Supplemental Agreement (the "Agreements") on 2 August 2004 and 26 August 2004 respectively with Hunan Provincial Television Network Company Limited ("Hunan TV") pursuant to 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 has been obtained in a special general meeting held on 20 November 2004. Details of the Transactions have been set out in the circular dated 4 November 2004. Income contributed by the above transactions amounted to approximately HK$5,000 for the year ended 31 March 2005.

Chairman's Statement

FINANCIAL REVIEW

For the year ended 31 March 2005, the Group recorded a turnover of approximately HK$14,758,000 (2004: approximately HK$12,709,000). The increase was mainly due to the increased demand of playout, pre-mastering and post-production services generated from various new Pay TV channels launched during the year.

Income from pre-mastering and other media services ("Media Services") accounted for approximately 54% (2004: approximately 42%) of the Group's turnover. Such increase was in line with the increased number of playout channels as mentioned. Also, after the acquisition of certain pre-mastering and post-production equipment in 2003, the Group has continued to strengthen its diversity and capacity of the provision of Media Services by establishing a high-class dubbing room and installing upgraded servers, which has also contributed to the increase in income.

Income from the provision of audiovisual playout services ("Playout Services") accounted for approximately 43% (2004: approximately 43%) of the Group's turnover. The number of playout channels increased while the percentage to Group's turnover remained the same as in 2004, this was attributed to the discount granted to a customer whose number of playout channels operating with the Company was continuously increasing and in order to maintain its competitiveness. Despite such discount, increased channels has brought along ancillary services such as editing, subtitling, sound mixing etc, this has in turn lead to the increase in the income from Media Services.

Income from Sky Dragon Group, a new income stream of the Company, amounted to approximately HK$472,000 for the year ended 31 March 2005. The business of Sky Dragon Group has formally launched only in the fourth quarter of 2004 and it is expected that income from Sky Dragon Group will continually increase due to the process of launching digital television network across the PRC.

The Group has generated a gross profit of approximately HK$5,332,000 (2004: approximately HK$7,034,000) out of a total turnover of approximately HK$14,758,000 (2004: approximately HK$12,709,000) during the year. The gross profit margin was decreased from 55% in 2004 to 36% in the current year and during the year, loss attributable to shareholder was approximately HK$8,968,000 (2004: profit of approximately HK$1,844,000), which was mainly attributable to the operation of Sky Dragon Group, which is still in its initial phase with certain capital expenditure and set-up expenses have been incurred. However, the Directors believe that such loss will be diminished following the increasing maturity of the market along with the launching of digital television network across the PRC.

CHAIRMAN'S STATEMENT

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 its business growth.

Consistent with 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 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 10 million in 2005. With such large hinterland, immense population and 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 is expected to improve 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 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 agreements with Hunan TV on the sharing of subscription fee. As required 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 as at the date of this report.

The income from our core business, Media Services and Playout Services, are growing continuously due to the increase in number of playout channels related to the boom in Pay TV industry commencing from 2004, which created demand for the Group's services and generated opportunities for the Group to take on more channels at an optimal cost. Income from Media Services, which are highly correlated to income from playout services, also benefited from such boom. The success in grabbing opportunities arose from the Playout Services market contributed to the correct pursuit of development strategy and visions of the management. The Group was managing one playout channel in April 2002, the date of first appearance in the Playout Services market and increased to ten in March 2005, brought along with increased income from both Playout Services and Media Services.

CHAIRMAN'S STATEMENT

BUSINESS PURSUITS AND PROSPECTS *(Continued)*

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. 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 believe 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 anticipates that our increased capacity of media service and digitised platform will soon be utilised in full and thus have 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.

Tong Hing Chi
Chairman
Hong Kong, 23 June 2005

Directors' and Senior Management's Profile

EXECUTIVE DIRECTORS

Mr. TONG Hing Chi, aged 50, is the Chairman and Managing Director of the Group. Mr. Tong has over 17 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 44, is a major shareholder, founder, Compliance Officer and Chief Executive Office 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 honoured 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 20 years of experience in the advanced technology. Mr. Law joined the Group in February 1999.

Mr. FENG Xiao Ping, aged 54, is a director of Sky Dragon Digital Television and Movies Limited and Hunan Digital Television Technology Company Limited (collectively "Sky Dragon"), being subsidiaries of the Company engaged in the development of digital set-top boxes and the system platform for the newly launched digital television network in the PRC. Mr. Feng is also one of the founders and an executive director of Crossprofit Development Limited, a company principally engaged in investment holding, property investment in Hong Kong and in the PRC and operation of toll highways in the PRC through its fellow companies and subsidiaries. During the period form 1998 to 2002, Mr. Feng was the director and chief executive officer of Asia Television Limited, a free-to-air terrestrial television broadcaster licensed in Hong Kong. Mr. Feng joined the Group on 29 April 2005.

Ms. FAN Wei, aged 49, has substantial years of experience in the media industry. She has been the Deputy General Manager of Sky Dragon Digital Television and Movies Limited, a wholly-owned subsidiary acquired by the Company in August 2004, since June 2003. Prior to that, she had been the Deputy General Manager of ATV Enterprises Limited from 2000 to 2003 and was responsible for TV content distribution. She had also been the Manager (overseas division) of Yue Xiu Enterprises Limited and was responsible for the branch operating in France. Ms. Fan possesses a Master Degree in Business Administration from the Murdoch University in Australia. Ms. Fan joined the Group on 1 February 2005.

Directors' and Senior Management's Profile

NON-EXECUTIVE DIRECTOR

Mr. CHAN Kwok Sun, Dennis, aged 55, has accumulated more than 23 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 the honorary committee of Hong Kong Performing Artists 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 a non-executive director on 30 January 2001.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. SOUSA Richard Alvaro, aged 44, 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 30 January 2001.

Mr. CHANG Carl, aged 49, 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 in Hong Kong. Mr. Chang has been an executive director and the chief executive officer of Ruili Holdings Limited, a company listed in Hong Kong, since 24 August 2004. Mr. Chang was appointed as an independent non-executive director on 19 March 2001.

Mr. NGAI Wai Fung, aged 43, is currently the Associate Director and the Head of Listing Services of KCS Limited and the non-executive Chairman of Top Orient Group of Companies, a local corporate services group. Prior to that, he had worked in various senior capacities of Executive Driector, Chief Financial Officer and Company Secretary for a number of listed companies including China Unicom Limited and COSCO International Holdings Limited. He is also the Vice President and council member of the Hong Kong Institute of Company Secretaries ("HKICS"), the Chairman of its China Affairs Committee, and the member of the Joint Training Committee of the Hong Kong Exchange and Clearing Limited. Mr. Ngai was also the Chairman of Corporate Governance Panel promoted by HKICS in 2002 and the Adjudicator for Best Annual Reports Awards of Hong Kong Management Association from 2000 to 2002 and the external examiner for Master of Arts in Professional Accounting and Information System of City University of Hong Kong from 2000 to 2004.

Mr. Ngai is the Fellow of the HKICS and the Institute of Chartered Secretaries and Administrators, and the member of Hong Kong Securities Institute and Institute of Directors. He also possesses a laws degree, a master degree in Business Administration and a master degree in Corporate Finance. Mr. Ngai joined the Group on 6 October 2004.

Directors' and Senior Management's Profile

SENIOR MANAGEMENT

Mr. SIT Hon Wing, aged 28, 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 Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants. Mr. Sit has over 6 years of auditing and accounting experience. Mr. Sit joined the Group in December 2002.

Mr. CHAN Lun Ho, aged 35, 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 Institute of Certified Public Accountants. He has over 13 years of auditing and accounting experience.

Report of the Directors

The directors present their annual report together with the financial statements of the Company and its subsidiaries ("Group") for the year ended 31 March 2005.

PRINCIPAL ACTIVITY AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 14 to the accounts.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 3 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement 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 25 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 12 to the accounts.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 23 to the accounts.

DISTRIBUTABLE RESERVES

As at 31 March 2005, 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 results and of the assets and liabilities of the Group for the last five financial years is set out on page 56.

REPORT OF THE DIRECTORS

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

1. Share Option Scheme

Pursuant to the written resolutions of the shareholders of the Company dated 20 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 ("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% 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").

Report of the Directors

SHARE OPTION *(Continued)*

1. 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 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 19 March 2011.

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

2. Other Share Options

Pursuant to an ordinary resolution passed on a special general meeting dated 13 July 2004 and the entering into of the Technical Support Agreement between Hunan Digital Television Technology Company Limited ("Hunan Digital"), a subsidiary of the Company and Hunan Provincial Television Network Company Limited ("Hunan TV"), a connected person of the Company, the Company has granted an option ("Option") to Sky Dragon Digital Television and Movies Holdings Limited ("Sky Dragon") to subscribe for 30 million shares of the Company at an exercise price of HK$0.788 per share. Such exercise price represents the average closing price per share for the last five consecutive trading days up to and including 12 May 2004 (the date of submission of announcement to the Stock Exchange regarding matters including such share option).

REPORT OF THE DIRECTORS

SHARE OPTION *(Continued)*

2. Other Share Options *(Continued)*

The Option was granted as an incentive for Sky Dragon, being a past shareholder of Hunan Digital to procure Hunan Digital to enter into the Technical Support Agreement with Hunan TV (Sky Dragon had subsequently sold all its indirect interest in Hunan Digital to the Company pursuant to a Sales and Purchase Agreement dated 19 May 2004).

On 2 August 2004, the Technical Support Agreement was signed and subsequently the Option has been granted and is exercisable at any time in three equal proportions to subscribe the shares of the Company from February 2005, August 2005 and February 2006 respectively and up until five years from 2 August 2004. None of the Option has been exercised since granted.

DIRECTORS

The directors during the year and up to the date of this annual report were:

Executive directors

Mr. TONG Hing Chi	
Mr. LAW Kwok Leung	
Mr. FENG Xiao Ping	(appointed on 29 April 2005)
Ms. FAN Wei	(appointed on 1 February 2005)

Non-executive director

Mr. CHAN Kwok Sun, Dennis

Independent non-executive directors

Mr. CHANG Carl	
Mr. SOUSA Richard Alvaro	
Mr. NGAI Wai Fung	(appointed on 6 October 2004)

In accordance with clause 87 of the Company's bye-laws, Mr. CHANG Carl and Mr. SOUSA Richard Alvaro retire by rotation and, being eligible, offers themselves for re-election at the forthcoming annual general meeting.

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.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN CONTRACTS

No 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", 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 7 to 9.

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

At 31 March 2005, the interests and short positions of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures 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. Feng Xiao Ping	—	31,718,750 *(note (b))*	—
Mr. CHAN Kwok Sun, Dennis	—	—	80,000,000 *(note (a))*

Notes:

(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 equity interests of 70% and 30% therein respectively.

(b) 31,718,750 shares are held by Sino Unicorn Technology Limited ("Sino Unicorn"), a company in which Mr. Feng Xiao Ping (a director of the Company appointed on 29 April 2005) has indirect equity interests of 51% therein.

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

Report of the Directors

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 31 March 2005, 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	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.

(c) Pursuant to the Placing Agreement dated 4 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 7 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 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 31 March 2005.

Report of the Directors

CONNECTED TRANSACTIONS

The related party transactions as disclosed in note 28 to the financial statements also constitute continuing 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"), and are required to comply with Chapter 20 of the GEM Listing Rules.

In accordance with an ordinary resolution passed on a special general meeting dated 31 August 2002, the transactions under the Playout Agreement entered into between M21 Digicast Company Limited ("Digicast"), a subsidiary of the Company, and MATV Limited ("MATV") as set out in note 28 (vi) and the relevant annual cap amount of HK$10,000,000 have been approved by the shareholders of the Company.

In accordance with an ordinary resolution passed on a special general meeting dated 30 August 2003, the transactions under the Agreement for the Provision of Pre-Mastering and Post-Production Services entered into between Digicast and Mei Ah (HK) Company Limited ("MAHK") as set out in note 28 (viii) and the relevant annual cap amount of HK$3,800,000 have been approved by the shareholders of the Company.

The above transactions with MATV and MAHK no longer constitutes continuing connected transactions with effect from 7 May 2004 as Sundowner has ceased to be a substantial shareholder of the Company on that date. Details of the which is set out under the heading "Substantial shareholders' Interests and Short Positions in the Shares, Underlying Share of the Company".

In accordance with an ordinary resolution passed on a special general meeting dated 20 November 2004, the transactions under the Technical Support Agreement and the Supplemental Agreement entered into between Hunan Digital and Hunan TV, and the relevant annual cap amount have been approved by the shareholders of the Company. Details of the transaction have been set out in the circular dated 4 November 2004.

The independent non-executive directors of the Company have reviewed all the above connected transactions 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;

(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;

(4) in the manner that the annual cap amounts of HK$10,000,000 and HK$3,800,000 for the Playout Agreement and the Agreement for the Provision of Pre-Mastering and Post-Production Services respectively have not been exceeded; and

(5) in the manner that the cap amount of HK$2,300,000 for the five months ended 31 March 2005 related to the Technical Support Agreement and the Supplemental Agreement has not been exceeded.

REPORT OF THE DIRECTORS

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. 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. There is no forfeited contribution that may be used by the Group to reduce the existing level of contributions. For the year ended 31 March 2005, the employer's pension cost charged to the income statement is HK$220,000.

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	26%
— five largest suppliers combined	75%
Sales	
— the largest customer	67%
— five largest customers combined	88%

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, PROCEDURES AND CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules throughout the year.

The Board Practices and Procedures set out in Rules 5.34 to 5.45 of the GEM Listing Rules were replaced by the Code on Corporate Governance Practices ("Code on CG Practices") as set out in Appendix 15 of the GEM Listing Rules which has become effective for accounting periods commencing on or after 1 January 2005. Appropriate actions are being taken by the Company for complying with the Code on CG Practices.

REPORT OF THE DIRECTORS

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to the guidelines recommended by the Hong Kong Institute of Certified Public 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 all the three independent non-executive directors of the Company. Two meetings were held during the current financial year and the annual results have been reviewed by the audit committee before tabling for the Board's approval.

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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and the Company considers the independent non-executive Directors remained independent.

AUDITORS

During the year, PricewaterhouseCoopers resigned as auditors of the Company and its subsidiaries on their own accord. CCIF CPA Limited (formerly known as Charles Chan, Ip & Fung CPA Ltd.) were appointed as the Company's auditors to fill up the casual vacancy.

A resolution for the appointment of CCIF CPA Limited as the auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the board

Tong Hing Chi
Chairman

Hong Kong, 23 June 2005

AUDITORS' REPORT

CCIF
CCIF CPA LIMITED
37/F Hennessy Centre
500 Hennessy Road
Causeway Bay, Hong Kong

AUDITORS' REPORT TO THE SHAREHOLDERS OF M21 TECHNOLOGY LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 20 to 55 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements 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 financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, 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 financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2005 and of its 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.

CCIF CPA Limited
Certified Public Accountants

Chan Wai Dune, Charles
Practising Certificate Number P00712

Hong Kong, 23 June 2005

Consolidated Income Statement

For the year ended 31 March 2005

	Note	2005 HK$'000	2004 HK$'000
TURNOVER	3	14,758	12,709
COST OF SALES		(9,426)	(5,675)
GROSS PROFIT		5,332	7,034
OTHER REVENUE	3	833	17
GAIN ON DISPOSAL OF DISCONTINUING OPERATION	4	—	1,447
GENERAL, ADMINISTRATIVE AND OTHER EXPENSES		(13,681)	(6,300)
(LOSS)/PROFIT FROM OPERATIONS	5	(7,516)	2,198
FINANCE COSTS	6	(1,433)	—
(LOSS)/PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION		(8,949)	2,198
TAXATION	7	(19)	(354)
(LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS	8	(8,968)	1,844
BASIC (LOSS)/EARNINGS PER SHARE	9	(2.87 cents)	0.59 cents

The notes on pages 25 to 55 form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31 March 2005

	Note	2005 HK$'000	2004 HK$'000
Non-current assets			
Fixed assets	12	**25,407**	13,510
Intangible assets	13	**5,056**	—
		30,463	13,510
Current assets			
Inventories	15	**1,432**	579
Accounts receivable	16	**3,570**	5,672
Other receivables and deposits	17	**30,931**	1,037
Amounts due from related companies		**—**	253
Bank balances and cash		**1,701**	438
		37,634	7,979
Current liabilities			
Accounts payable	20	**1,171**	562
Other payables and accrued charges		**8,425**	1,267
Amount due to a related company	19	**100**	—
Bank and other loans	21	**500**	—
		10,196	1,829
Net current assets		**27,438**	6,150
Total assets less current liabilities		**57,901**	19,660
Non-current liabilities			
Bank and other loans	21	**47,190**	—
Deferred tax liabilities	22	**643**	624
		47,833	624
NET ASSETS		**10,068**	19,036
CAPITAL AND RESERVES			
Share capital	23	**3,125**	3,125
Reserves	25(a)	**6,943**	15,911
		10,068	19,036

Approved and authorised for issue by the board of directors on 23 June 2005

On behalf of the board

Tong Hing Chi
Director

Law Kwok Leung
Director

Feng Xiao Ping
Director

The notes on pages 25 to 55 form an integral part of these financial statements.

BALANCE SHEET

At 31 March 2005

	Note	2005 HK$'000	2004 HK$'000
Non-current assets			
Investments in subsidiaries	*14*	**11,807**	19,822
Current assets			
Other receivables and deposits		**119**	119
Current liabilities			
Other payables and accrued charges		**110**	114
Amount due to a subsidiary	*18*	**1,748**	791
		1,858	905
Net current liabilities		**(1,739)**	(786)
NET ASSETS		**10,068**	19,036
CAPITAL AND RESERVES			
Share capital	*23*	**3,125**	3,125
Reserves	*25(b)*	**6,943**	15,911
		10,068	19,036

Approved and authorised for issue by the board of directors on 23 June 2005

On behalf of the board

Tong Hing Chi	**Law Kwok Leung**	**Feng Xiao Ping**
Director	*Director*	*Director*

The notes on pages 25 to 55 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2005

	Note	2005 HK$'000	2004 HK$'000
Total equity as at the beginning of year		**19,036**	17,192
(Loss)/profit for the year	*25(a)*	**(8,968)**	1,844
Total equity as at the end of year		**10,068**	19,036

The notes on pages 25 to 55 form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2005

	Note	2005 HK$'000	2004 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before taxation		**(8,949)**	2,198
Adjustment for:			
Interest expenses		**1,433**	—
Interest income		**(829)**	—
Gain on disposal of property, plant and equipment		**—**	(1,447)
Impairment loss of property, plant and equipment		**800**	—
Bad debts written off		**200**	—
Provision for inventories		**112**	—
Depreciation and amortisation		**5,412**	3,826
		7,128	2,379
Operating (loss)/profit before working capital changes		**(1,821)**	4,577
Decrease/(increase) in inventories		**363**	(377)
Decrease/(increase) in accounts receivable		**1,902**	(3,364)
(Increase)/decrease in other receivables and deposits		**(16,969)**	814
Decrease/(increase) in amounts due from related companies		**253**	(252)
(Decrease)/increase in accounts payable		**(1,258)**	335
Increase/(decrease) in other payables and accrued charges		**3,915**	(384)
Increase/(decrease) in amounts due to related companies		**100**	(360)
Cash (used)/generated from operations		**(13,515)**	989
Interest received		**829**	—
Interest paid		**(1,433)**	—
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES		**(14,119)**	989
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(3,781)**	(645)
Purchase of films rights		**(1,159)**	—
Proceeds from disposal of property, plant and equipment		**—**	6
Acquisition of subsidiaries	*26(a)*	**1,227**	—
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		**(3,713)**	(639)
NET CASH INFLOW FROM FINANCING ACTIVITIES	*26(b)*	**19,095**	—
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,263**	350
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR		**438**	88
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,701**	438
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		**1,701**	438

The notes on pages 25 to 55 form an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 March 2005

1. BASIS OF PREPARATION

(a) Principal activities

The Company is an investment holding company. 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").

(b) Going concern

The financial statements have been prepared by the directors with due care on a going concern basis, notwithstanding the fact that the Group had net loss of approximately HK$8,968,000 for the year ended 31 March 2005 and the outstanding commitments of HK$37,690,000 as further detailed in note 27(a). A substantial shareholder of the Company has agreed to provide a credit facility with a limit up to HK$40,000,000 to the Group so as to meet its debts as and when they fall due for the next twelve months. Consequently, the financial statements have been prepared on a going concern basis. The validity of the Group to carry on its business as a going concern is dependent upon future profitable operations of the Group and the adequate funds being available to the Group.

Should the Group be unable to continue its business as a going concern, adjustments would have to be made to restate the value of the assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the financial statements.

(c) Impact of recently issued Hong Kong Financial Reporting Standards

The Hong Kong Institute of Certified Public Accountants has issued a number of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in preparing the financial statements for the year ended 31 March 2005.

The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 March 2005

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with Statements of Standard Accounting Practice ("SSAP") and Interpretations issued by the Hong Kong Institute of Certified Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements are prepared under the historical cost convention. A summary of the significant accounting policies adopted by the Group is set out below.

(a) Consolidation

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

A subsidiary is a company in which the Group or the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors. Subsidiaries are considered to be controlled if the Group or the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement 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.

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 unamortised goodwill or negative goodwill which was not previously charged or recognised in the consolidated income statement.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 March 2005

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Fixed assets

Fixed assets, comprising leasehold improvements, plant and machinery and furniture, fixtures and equipment and motor vehicles, are stated at cost less accumulated depreciation and accumulated impairment losses. Fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses 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%
Motor vehicles	10%

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 income statement.

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 income statement.

(c) Club membership

Club membership is stated at cost less accumulated amortisation and accumulated impairment losses. Club membership is amortised over the period of the membership.

(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 income statement on a straight-line basis over the lease periods.

(e) Goodwill

Goodwill arising on acquisition of subsidiaries represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable assets and liabilities acquired as at the date of acquisition.

Notes to the Consolidated Financial Statements

31 March 2005

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) Goodwill *(Continued)*

Goodwill arising on acquisition is recognised as an asset and is amortised on a straight-line method over its estimated useful economic life of not exceeding twenty years.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised/has not been recognised in the consolidated income statement and any relevant capital reserve, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

(f) Film rights

Film rights acquired by the Group are stated at cost less accumulated amortisation and any impairment losses. The cost of film rights is amortised on a systematic basis over the licence period.

At each balance sheet date, both internal and external market information are considered to assess whether there is any indication that film rights are impaired. If any such indication exists, the carrying amount of such assets is assessed and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the consolidated income statement.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the standard cost basis for raw materials and first-in, first-out basis for finished goods, comprises their respective invoiced cost. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(h) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 March 2005

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) 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 comprise cash on hand and deposits held at call with banks.

(j) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(k) 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 leave are not recognised until the time of leave.

(ii) Pensions obligations

The Group contributes to defined contribution retirement schemes which are available to all employees under Hong Kong employment. 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 income statement represents contributions payable by the Group to the fund.

The employees of the Group's subsidiaries in the PRC are members of the state-sponsored retirement scheme operated by the government of the PRC.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 March 2005

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(l) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(m) 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) Revenue from the provision of TV digitalisation related services is recognised when the services are rendered.

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

(n) 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. Exchange differences arising in these cases are dealt with in the income statement.

The financial statements of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the income statement is translated at an average rate. Exchange differences arising are dealt with as a movement in reserves.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 March 2005

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(o) Borrowing costs

Borrowing costs are interests and other costs incurred in connection with the borrowings of funds. The borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the income statement in the year in which they are incurred.

(p) Related parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(q) 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 taxation. Capital expenditure comprises additions to fixed assets *(note 12)*.

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.

(r) Comparative figures

With a review of financial statements' presentation, certain items in the financial statements were reclassified which would result in a more appropriate presentation of events or transactions. Accordingly, comparative figures have been reclassified to conform with the current year's presentation.

Notes to the Consolidated Financial Statements

31 March 2005

3. TURNOVER, REVENUES AND SEGMENT INFORMATION

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"). Revenues recognised during the year are as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Turnover		
Continuing operations		
Provision of pre-mastering and other media services	**7,941**	5,284
Provision of audiovisual playout services	**6,345**	5,546
Provision of TV digitalisation related services	**472**	—
Discontinued operation *(note 4)*		
Sales of stampers for audiovisual products	**—**	1,879
	14,758	12,709
Other revenue		
Interest income	**829**	—
Others	**4**	17
	833	17
Total revenue	**15,591**	12,726

Notes to the Consolidated Financial Statements

31 March 2005

3. TURNOVER, REVENUES AND SEGMENT INFORMATION *(Continued)*

Primary report format — business segments

The Group is organised into three main business segments:

— Provision of pre-mastering and other media services — provision of editing, authoring and digitalisation of audiovisual data processes;

— Provision of audiovisual playout services — provision of audiovisual playout services on audiovisual data; and

— Provision of TV digitalisation related services — development of digital set-top boxes and the system platform for digital TV network and provision of digitalisation related technical support services.

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

Secondary report format — geographical segments

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

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

— PRC — development of digital television system platform and provision of related services, sales and rental of set-top boxes, development of program database, design and manufacture of digital television equipment and facilities.

There are no sales between the geographical segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 March 2005

3. TURNOVER, REVENUES AND SEGMENT INFORMATION *(Continued)*

Business segments

	Provision of pre-mastering and other media services 2005 *HK$'000*	Provision of audiovisual playout services 2005 *HK$'000*	Provision of TV digitalisation related services 2005 *HK$'000*	Total 2005 *HK$'000*
Turnover	7,941	6,345	472	14,758
Segment results	1,527	2,042	(6,881)	(3,312)
Unallocated income				4
Unallocated expenses				(4,208)
Loss from operations				(7,516)
Finance costs				(1,433)
Loss before taxation				(8,949)
Taxation				(19)
Loss attributable to shareholders				(8,968)
Segment assets	8,442	5,261	48,005	61,708
Unallocated assets				6,389
Total assets				68,097
Segment liabilities	1,123	395	55,093	56,611
Unallocated assets				1,418
Total liabilities				58,029
Capital expenditure	1,256	240	2,285	3,781
Unallocated capital expenditure				—
				3,781
Depreciation	1,669	1,650	1,699	5,018
Unallocated depreciation				—
				5,018

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 March 2005

3. TURNOVER, REVENUES AND SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

	Discontinuing operation	Continuing operations		
	Sale of stampers 2004 *HK$'000*	Provision of premastering and other media services 2004 *HK$'000*	Provision of audiovisual playout services 2004 *HK$'000*	Total 2004 *HK$'000*
Turnover	1,879	5,284	5,546	12,709
Segment results	(201)	1,943	1,861	3,603
Gain on disposal of discontinuing operation	1,447	—	—	1,447
	1,246	1,943	1,861	5,050
Unallocated income				17
Unallocated costs				(2,869)
Profit from operations				2,198
Finance costs				—
Profit before taxation				2,198
Taxation				(354)
Profit attributable to shareholders				1,844
Segment assets	12	9,151	9,691	18,854
Unallocated assets				2,635
Total assets				21,489
Segment liabilities	274	811	270	1,355
Unallocated liabilities				1,098
Total liabilities				2,453
Capital expenditure	166	5,088	1,233	6,487
Unallocated capital expenditure				716
				7,203
Depreciation	1,285	594	1,783	3,662
Unallocated depreciation				164
				3,826

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 March 2005

3. TURNOVER, REVENUES AND SEGMENT INFORMATION *(Continued)*

Geographical segments

	2005			
	Turnover	**Segment results**	**Segment assets**	**Capital expenditure**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Hong Kong	**14,286**	**3,569**	**20,092**	**1,496**
PRC	**472**	**(6,881)**	**48,005**	**2,285**
	14,758	**(3,312)**	**68,097**	**3,781**
Unallocated income		**4**		
Unallocated costs		**(4,208)**		
Loss from operations		**(7,516)**		

	2004			
	Turnover	Segment results	Segment assets	Capital expenditure
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	12,271	3,560	21,489	7,203
Other countries	438	43	—	—
	12,709	3,603	21,489	7,203
Gain on disposal of discontinuing operation		1,447		
Unallocated income		17		
Unallocated costs		(2,869)		
Profit from operations		2,198		

Notes to the Consolidated Financial Statements

31 March 2005

4. DISCONTINUING OPERATION

Pursuant to an agreement dated 29 July 2003, M21 Mastertech Company Limited ("Mastertech"), a wholly-owned subsidiary of the Company, disposed of its mastering system and ancillary equipment on 1 September 2003 at a consideration of HK$5,900,000. After the completion of the transaction, the Group terminated the segment related to the sale of stampers. The results of which has been classified as a discontinuing operation in the comparative information.

5. (LOSS)/PROFIT FROM OPERATING ACTIVITIES

The Group's (loss)/profit from operating activities is stated after charging

	Group	
	2005	2004
	HK$'000	*HK$'000*
Amortisation of club membership	**3**	—
Amortisation of film rights	**270**	—
Amortisation of goodwill	**121**	—
Auditors' remuneration	**180**	250
Bad debts written-off	**200**	135
Cost of inventories sold	**4,422**	1,963
Depreciation	**5,018**	3,826
Operating leases in respect of		
— land and buildings	**889**	465
— plant and machinery	**—**	250
Staff costs (including directors' emoluments) *(note 10)*	**8,254**	4,152
Impairment loss for property, plant and equipment	**800**	—
Provision for inventories	**112**	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 March 2005

6. FINANCE COSTS

	Group	
	2005	2004
	HK$'000	*HK$'000*
Interest on bank loans	**1,029**	—
Interest on other loans	**404**	—
	1,433	—

7. TAXATION

No provision for Hong Kong profits tax and PRC enterprise income tax has been made in these financial statements as there was no estimated assessable profit for the year (2004: Nil).

The amount of taxation charged to the consolidated income statement represents:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Current taxation	**—**	—
Deferred taxation relating to the origination and reversal of temporary differences *(note 22)*	**19**	354
Taxation charge	**19**	354

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 March 2005

7. TAXATION *(Continued)*

The taxation on the Group's (loss)/profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of which the Group operates as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
(Loss)/profit before taxation	**(8,949)**	2,198
Calculated at a taxation rate of 17.5% (2004: 17.5%)	**(1,566)**	385
Expenses not deductible for taxation purposes	**1,338**	—
Income not subject to taxation	**(352)**	—
Utilisation of previously unrecognised tax losses	**(368)**	(100)
Tax losses unrecognised	**842**	69
Effect of different tax rates at overseas jurisdiction	**125**	—
Taxation charge	**19**	354

8. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 March 2005 in the financial statements of the Company is HK$8,968,000 (2004: net profit of HK$1,574,000).

9. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share is based on the Group's loss attributable to shareholders for the year of HK$8,968,000 (2004: profit of HK$1,844,000) and on 312,500,000 (2004: 312,500,000) ordinary shares in issue during the year.

No diluted loss per share for 2005 has been presented, as the exercise of the outstanding share options of the Company during the year ended 31 March 2005 would result in reducing loss per share. No diluted earnings per share for 2004 was presented as there was no dilutive potential ordinary shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 March 2005

10. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	Group	
	2005	2004
	HK$'000	*HK$'000*
Wages and salaries	**8,040**	4,020
Pension costs — defined contribution plan	**214**	132
	8,254	4,152

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

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

	Group	
	2005	2004
	HK$'000	*HK$'000*
Independent non-executive directors		
— Fees	**75**	60
— Other emoluments	**—**	—
Executive directors		
— Fees	**—**	—
— Others emoluments, including basic salaries, other allowances and benefits in kind	**913**	822
— Pension costs — defined contribution plan	**14**	12
	1,002	894

During the year, the three independent non-executive directors of the Company received directors' fee of HK$30,000 (2004: HK$30,000), HK$30,000 (2004: HK$30,000) and HK$15,000 (2004; Nil) respectively.

Notes to the Consolidated Financial Statements

31 March 2005

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

The non-executive director did not receive any fees and emoluments during the year (2004: Nil).

During the year, the executive directors received individual emoluments for the year ended 31 March 2005 of HK$715,000 (2004: 714,000), HK$120,000 (2004: HK$120,000) and HK$92,000 (2004: Nil) respectively.

No director waived or agreed to waive any of their emoluments in respect of the year ended 31 March 2005 (2004: Nil).

(b) Five highest paid individuals

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

	Group	
	2005	2004
	HK$'000	*HK$'000*
Directors of the Company	**2**	1
Non-directors of the Company	**3**	4
	5	5

The five individuals whose emoluments were the highest in the Group for the year include two directors (2004: one director) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2004: four) individuals during the year are as follows:

	2005	2004
	HK$'000	*HK$'000*
Basic salaries, other allowances and benefits in kind	**1,645**	929
Pension costs — defined contribution plan	**19**	42
	1,664	971

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 March 2005

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

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

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

During the year ended 31 March 2005, no emoluments have been paid by the Group to the two directors (2004: one director) or the three (2004: four) highest paid individuals as an inducement to join the Group, or as compensation for loss of office.

12. FIXED ASSETS

			Group		
	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost					
At 1 April 2004	994	15,367	210	—	16,571
Acquired on acquisition of subsidiaries	—	12,229	508	1,197	13,934
Additions	157	3,509	115	—	3,781
At 31 March 2005	1,151	31,105	833	1,197	34,286
Accumulated depreciation and impairment					
At 1 April 2004	84	2,911	66	—	3,061
Charge for the year	105	4,730	112	71	5,018
Impairment loss	—	800	—	—	800
At 31 March 2005	189	8,441	178	71	8,879
Net book value					
At 31 March 2005	962	22,664	655	1,126	25,407
At 31 March 2004	910	12,456	144	—	13,510

As at 31 March 2005, the net book value of fixed assets pledged to secure certain of the Group's bank and other loans amounted to approximately HK$7,189,000 (2004: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 March 2005

13. INTANGIBLE ASSETS

	Group			
	Goodwill	**Film rights**	**Club membership**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost				
At 1 April 2004	—	—	—	—
Acquired on acquisition of subsidiaries	4,128	—	163	4,291
Additions	—	1,159	—	1,159
At 31 March 2005	4,128	1,159	163	5,450
Accumulated amortisation				
At 1 April 2004	—	—	—	—
Charge for the year	121	270	3	394
At 31 March 2005	121	270	3	394
Net book value				
At 31 March 2005	4,007	889	160	5,056
At 31 March 2004	—	—	—	—

14. INVESTMENTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	*HK$'000*
Unlisted shares, at cost *(note (a))*	**13,307**	13,307
Amounts due from subsidiaries *(note (b))*	**21,488**	21,114
	34,795	34,421
Less: Provision for impairment	**(22,988)**	(14,599)
	11,807	19,822

Notes to the Consolidated Financial Statements

31 March 2005

14. INVESTMENT IN SUBSIDIARIES *(Continued)*

(a) The following is a list of the principal subsidiaries at 31 March 2005:

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 ("Mastertech")	Hong Kong, limited liability company	Provision of broadband services and web hosting services in Hong Kong	2,000 ordinary shares of HK$1 each	100%
M21 Digicast Company Limited ("Digicast")	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%
Sky Dragon Digital Television and Movies Limited	Hong Kong, limited liability company	Investment holding in Hong Kong	21,000,000 ordinary shares of HK$1 each	100%
Hunan Digital Television Technology Company Limited ("Hunan Digital")	PRC, limited liability company	Provision of TV digitalisation services in the PRC	RMB30,000,000	70%

(b) The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 March 2005

15. INVENTORIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Raw materials	**297**	579
Finished goods	**1,135**	—
	1,432	579

At 31 March 2005, included above were raw materials of HK$52,000 (2004: Nil) which were carried at net realisable value.

16. ACCOUNTS RECEIVABLE

The Group's credit term granted to trade debtors generally ranges from 15 to 90 days. At 31 March 2005, details of the ageing analysis of accounts receivable were as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Current	**2,163**	818
30 — 60 days	**95**	764
61 — 90 days	**114**	796
Over 90 days	**1,198**	3,294
	3,570	5,672

17. OTHER RECEIVABLE AND DEPOSITS

Included in the balance is a deposit of HK$24,500,000 (2004: Nil) paid for the purchase of Cable TV set top boxes in relation to the TV digitalisation network operations.

18. AMOUNT DUE TO A SUBSIDIARY

The amount is unsecured, interest-free and has no fixed terms of repayment.

19. AMOUNT DUE TO A RELATED COMPANY

The amount is unsecured, interest-free and has no fixed terms of repayment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 March 2005

20. ACCOUNTS PAYABLE

At 31 March 2005, details of the ageing analysis of accounts payable were as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Current	**541**	168
30 — 60 days	**252**	127
Over 60 days	**378**	267
	1,171	562

21. BANK AND OTHER LOANS

All the bank and other loans are wholly repayable within five years:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Bank and other loans		
Unsecured	**47,190**	—
Secured	**500**	—
	47,690	—
Current portion	**(500)**	—
Non-current portion	**47,190**	—

The bank and other loans bear interest at various rates between 5% to 2% over Hong Kong prime lending rate per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 March 2005

21. BANK AND OTHER LOANS *(Continued)*

At 31 March 2005, the Group's bank and other loans were repayable as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within one year	**500**	—
In the second year	**9,500**	—
In the third to fifth year	**37,690**	—
	47,690	—

22. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2004: 17.5%).

The movement on the deferred tax liabilities account is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
At the beginning of year	**624**	270
Deferred taxation charged to consolidated income statement *(note 7)*	**19**	354
At the end of year	**643**	624

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK$14,292,000 (2004: HK$14,800,000) to carry forward against future taxable income. These tax losses have not been recognised due to uncertainty of their future recoverability. Such tax losses have no expiry date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 March 2005

22. DEFERRED TAXATION *(Continued)*

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax liabilities

	Group Accelerated tax depreciation	
	2005	2004
	HK$'000	*HK$'000*
At the beginning of year	**1,831**	1,911
Credited to the consolidated income statement	**(372)**	(80)
At the end of year	**1,459**	1,831

Deferred tax assets

	Group Tax losses	
	2005	2004
	HK$'000	*HK$'000*
At the beginning of year	**(1,207)**	(1,641)
Charged to the consolidated income statement	**391**	434
At the end of year	**(816)**	(1,207)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Deferred tax assets	**(816)**	(1,207)
Deferred tax liabilities	**1,459**	1,831
	643	624

Notes to the Consolidated Financial Statements

31 March 2005

23. SHARE CAPITAL

	2005	2004
	HK$'000	*HK$'000*
Authorised		
700,000,000 ordinary shares of HK$0.01 each	**7,000**	7,000
Issued and fully paid		
312,500,000 ordinary shares of HK$0.01 each	**3,125**	3,125

24. SHARE OPTIONS

(a) 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% 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.

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 or more than 10 years from the Offer Date.

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

(b) Pursuant to an ordinary resolution passed on a special general meeting dated 13 July 2004 and the entering into of the Technical Support Agreement between Hunan Digital and Hunan Provincial Television Network Company Limited. a minority shareholder of Hunan Digital, the Company has granted an option ("Option") to Sky Dragon Digital Television and Movies Holdings Limited to subscribe for 30 million shares of the Company at an exercise price of HK$0.788 per share. The Option is exercisable at any time in three equal proportion to subscribe the shares of the Company from February 2005, August 2005 and February 2006 respectively and up until five years from 2 August 2004.

At the balance sheet date, 10 million Option shares were exercisable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 March 2005

25. RESERVES

(a) Group

	Share premium	Accumulated losses	Merger reserve	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
			(Note (i))	
At 1 April 2003, as previously reported	27,783	(13,249)	(197)	14,337
Effect of change in accounting policy — adoption of revised SSAP 12	—	(270)	—	(270)
At 1 April 2003, as restated	27,783	(13,519)	(197)	14,067
Net profit for the year	—	1,844	—	1,844
At 31 March 2004 and 1 April 2004	27,783	(11,675)	(197)	15,911
Net loss for the year	—	(8,968)	—	(8,968)
At 31 March 2005	27,783	(20,643)	(197)	6,943

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 20 March 2001 as set out in the prospectus of the Company dated 26 March 2001.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 March 2005

25. RESERVES *(Continued)*

(b) Company

	Share premium	Accumulated losses	Contributed surplus	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
			(Note (i))	
At 1 April 2003	19,601	(18,371)	13,107	14,337
Net profit for the year	—	1,574	—	1,574
At 31 March 2004 and 1 April 2004	19,601	(16,797)	13,107	15,911
Net loss for the year	—	(8,968)	—	(8,968)
At 31 March 2005	19,601	(25,765)	13,107	6,943

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 20 March 2001 as set out in the prospectus of the Company dated 26 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 March 2005

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries:

		2005
		HK$'000
Net assets acquired:		
Fixed assets		13,934
Club membership		163
Inventories		1,328
Other receivables and deposits		12,925
Cash and bank balances		6,608
Accounts payable		(1,867)
Other payables and accruals		(3,243)
Bank and other loans	*26(b)*	(28,595)
		1,253
Goodwill arising on acquisition		4,128
		5,381
Satisfied by:		
Cash		5,000
Expenses paid directly attributable to acquisition		381
		5,381
Analysis of the net cash inflow in respect of purchase of subsidiaries:		
Cash and bank balances acquired		6,608
Cash consideration		(5,000)
Expenses paid directly attributable to acquisition		(381)
Net cash inflow in respect of purchase of subsidiaries		1,227

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 March 2005

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Analysis of changes in financing during the year:

Bank and other loans:

		2005	2004
		HK$'000	*HK$'000*
At the beginning of year		—	—
Acquired on acquisition of subsidiaries	*26(a)*	28,595	—
Bank and other loans raised		19,095	—
At the end of year		47,690	—

27. COMMITMENTS

(a) Capital commitment:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Authorised but not contracted for:		
Hunan Cable TV digitalisation network system	30,322	—
Contracted but not provided for:		
Hunan Cable TV digitalisation network system	7,368	—
Purchase of other fixed assets	—	75
Total commitments	37,690	75

The company had no significant commitments at the balance sheet date.

(b) Operating leases commitment:

At 31 March 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Not later than one year	813	600
Later than one year and not later than five years	649	850
	1,462	1,450

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 March 2005

28. RELATED PARTY TRANSACTIONS

Save as disclosed in note 19 to the financial statements, significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

		Group	
		2005	2004
	Note	***HK$'000***	*HK$'000*
Disposal of mastering machinery to Silver Kent Technology Limited ("SKT")	*(i)*	**—**	5,900
Acquisition of machinery from Mei Ah Video Production Company Limited ("MAVP")	*(ii)*	**—**	5,700
Sale of stampers and provision of pre-mastering services to SKT	*(iii)*	**—**	656
Provision of pre-mastering services to MAVP	*(iv)*	**—**	369
Rental expense of machinery paid to MAVP	*(v)*	**—**	250
Provision of audiovisual playout services and post-production services to MATV Limited ("MATV")	*(vi)*	**606**	5,728
Rental expense of factory and office premise paid to Mei Ah Investment Company Limited ("MAI")	*(vii)*	**50**	465
Provision of pre-mastering and post-production services to MAHK	*(viii)*	**341**	2,717

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 March 2005

28. RELATED PARTY TRANSACTIONS *(Continued)*

Notes:

(i) Pursuant to an agreement dated 29 July 2003, Mastertech disposed its mastering machinery to SKT, a related company up to 7 May 2004, in 1 September 2003 at a consideration of HK$5,900,000.

(ii) Pursuant to an agreement dated 29 July 2003, Digicast acquired certain pre-mastering and post-production equipment from MAVP, a related company up to 7 May 2004, in 1 September 2003 at a consideration of HK$5,700,000.

(iii) Pursuant to an agreement dated 20 March 2001 and the extended agreement dated 15 May 2003, Mastertech has been appointed as a pre-mastering service provider and stamper supplier of SKT up to 31 March 2004. The transactions were conducted in the normal course of business and in accordance with the terms of the agreements. The extended agreement was terminated on 31 August 2003.

(iv) Pursuant to an agreement dated 20 March 2001 and the extended agreement dated 15 May 2003. Mastertech has been appointed as a pre-mastering service provider of MAVP up to 31 March 2004. The transactions were conducted in the normal course of business and in accordance with the terms of agreement. The extended agreement was terminated on 31 August 2003.

(v) Pursuant to a leasing agreement dated 20 March 2001 and the extended agreement dated 15 May 2003, pre-mastering equipment was leased from MAVP up to 31 March 2004 at a monthly rent of HK$50,000 which was charged in accordance with the agreement. The extended agreement was terminated on 31 August 2003.

(vi) Pursuant to an agreement dated 25 July 2002 (the "Playout Agreement") entered into between Digicast and MATV, a related company up to 7 May 2004, 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 from 1 September 2002 to 31 August 2005. The playout services were entered into the normal course of business and charged in accordance with the terms of the Playout Agreement. The post-production services provided are charged at normal commercial terms which were mutually agreed by both parties.

(vii) Pursuant to a rental agreement dated 1 January 2002, factory premise was leased from MAI, a related company up to 7 May 2004, for the period from 1 January 2002 to 31 December 2005 at a monthly rental of HK$23,000. This agreement was terminated on 1 September 2003. Pursuant to another rental agreement dated 1 September 2003, office premise was leased from MAI, for a period from 1 September 2003 to 31 August 2006 at a monthly rental of HK$50,000. The transactions were entered into in the normal course of business and charged in accordance with the terms of the relevant agreements.

(viii) Pursuant to an agreement dated 29 July 2003 entered into between Digicast and MAHK, a related company up to 7 May 2004, Digicast has been appointed to provide pre-mastering and post-production services to MAHK for the period from 1 September 2003 to 31 March 2006. The services provided are charged at normal commercial terms which were mutually agreed by both parties.

Other Financial Information

FINANCIAL SUMMARY

	Year ended 31 March 2005	year ended 31 March 2004	As restated Year ended 31 March 2003	Year ended 31 March 2002	Year ended 31 March 2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Results					
(Loss)/profit attributable to shareholders	**(8,968)**	1,844	(2,536)	(5,785)	(2,966)

	As at 31 March 2005	As at 31 March 2004	As restated As at 31 March 2003	As at 31 March 2002	As at 31 March 2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets and liabilities					
Total assets	**68,097**	21,489	19,700	24,653	43,661
Total liabilities	**(58,029)**	(2,453)	(2,508)	(4,925)	(17,994)
	10,068	19,036	17,192	19,728	25,667

The results for the year ended 31 March 2001 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 5 February 1999 (the earliest date of incorporation of the companies comprising the Group).

The assets and liabilities as at 31 March 2001, 2002, 2003, 2004 and 2005, and the results for the years ended 31 March 2002, 2003, 2004 and 2005 have been prepared on a consolidated basis.

The figures for the year ended 31 March 2003 have been restated pursuant to the adoption of SSAP 12 (revised) which has no material impact for the year ended 31 March 2002 or before and accordingly no prior year adjustment was put through in these financial years.