

GROUP RESULTS

On behalf of the directors, I am pleased to present the Group's results for the year ended 31st March 2001.

DIVIDEND

The directors do not recommend the payment of any dividend for the year ended 31st March 2001 (2000: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Overview of the Group

The past year has been a challenging year for the Group. Amid a pan-regional economic downturn, the Group's sales and movie program licensing revenue have been negatively affected by a general weakness in demands for entertainment products in the Asia-Pacific region. A general depreciation of exchange rates of local currencies in the region vis-a-vis Hong Kong dollar has further exacerbated the revenue weakness in Hong Kong dollar terms. Moreover, weak demands have triggered more intense price competitions. Against all these odds, the Group has achieved an increase in turnover of 7% from HK\$192,493,000 in FY2000 to HK\$205,748,000 in FY2001.

Overall gross profit, however, has decreased by 34% as a result of the persisting margin pressure from the intensified price competitions and the general deflation casting over the region during the year under review.

Film and Program Distribution in AudioVisual Product formats

Turnover for film and program distribution in audiovisual product formats in total has increased by 12%, with turnover in Video Compact Disc ("VCD") format increased by 6% and in Digital Versatile Disc ("DVD") format by 116%, respectively. The significant growth in turnover was primarily driven by the increased effectiveness of the Group's strong distribution network and by the Group's prolific library of films and programs. Further, the growth in distribution of audiovisual products in DVD format in particular was additionally driven by a more popular demand of DVD products. This was attributable to the superb quality of DVD in sound and picture over the VCD format and a general price reduction of the DVD players.

Film Exhibition and Film Rights Sub-licensing

Turnover for film exhibition and film rights sub-licensing has decreased by 6% in the year under review, mainly attributable to the general weakness of economies in the region and depreciation of regional currencies.

Provision of Internet and related services

Turnover for the provision of internet related services has decreased by 18% from last year, mainly due to downsizing and close-down of many Internet Content Providers in the region during the year.

Against the challenging market conditions, the Group has achieved a profit attributable to shareholders of HK\$1,198,000 during the year (2000: HK\$18,095,000). The Group succeeded in separate listing of its technology arm, M21 Technology Limited ("M21"), on the Growth Enterprise Market of the Stock Exchange of Hong Kong on 30th March 2001 and recorded a dilution gain upon the dilution of equity interest in M21 on its listing. This has helped to partially offset some losses by associated companies and a jointly controlled entity.

PROSPECTS — POSITION FOR NEW CHALLENGES

Looking forward, the directors are confident about the Group's development future.

Firstly, China's pending entry into the World Trade Organization is providing an unprecedented opportunity for the Group. The WTO entry will bring out much-needed economic stimuli and further catalyze the economic reform and legal reform that are currently in progress in China. This will help to substantially expand market demands for entertainment products, improving protection of copyrights and opening up markets that were previously not open to overseas operators. With a strong distribution network currently underdevelopment in China and several long established sino-foreign joint ventures in China, the Group is well positioned to capitalize on the new market opportunities.

Secondly, the cyclical headwind in the region that worked against the Group is likely to turn around in the coming years. With expected economic recovery of the region in 2002, the directors expect the market demands to rebound soon.

Thirdly, the recent technological development is opening up uncharted territories for the Group. With rapid development of broadband internet services with various webcasting, multicasting and video-on-demand technologies that are bringing down some of the existing market barriers, the Directors believe that the Group is poised to increase its market share of the entertainment markets in the region.

To take advantage of these opportunities, the Group is taking the strategy of increasing Total Market Penetration by leveraging its strength in its movie library and the distribution network. The Group intends to increase its total market penetration by maximize its market share in all product media and geographic markets and by improving profitability of total distribution network. This will be achieved by strengthening and expanding its existing distribution networks and by developing new distribution channels and geographic markets, and by synergistic interaction of these product media and markets.

To implement this strategy, the Group is seeking to further monetize its movie library through product media proliferation and geographic market expansion. The Group's library is one of the most prolific Chinese movie libraries in the world. It has numerous Chinese blockbusters, TV drama series of famous Chinese readings or historic figures, collections of well-known Japanese directors, educational programs and documentary series on nature, animals and Chinese culture as well as customs and medicated foods. The directors expect the demands for our products to substantially increase in the coming years.

As another key step to implement the strategy, the Group is making a major move to enter the TV market by launching a pan-regional satellite movie channel service on 28th March 2001. The Group aims to develop it into a premier Chinese home cinema or "Chinese HBO" for billions of Chinese viewers in the region, with a long term strategic objective of developing it into the Chinese Movie Channel of Choice for all Chinese-Language viewers over the world. MATV Limited ("MATV"), the Group's wholly owned subsidiary, was granted a non-domestic television program service license on 12th April 2001 by the Broadcasting Authority of HKSAR for a period of 12 years.

With the Group's popular film and program library and strong synergy with our other traditional and new-technology distribution channels, we enjoy the competitive advantages over many other broadcasters in delivering a comprehensive package of movies and TV programs profitably. We believe that the Group has what it takes to make it a successful venture.

This new sector is going to substantially alter the Group's business mix and improve its profit potential by opening up markets in the region as well as in Northern America and Europe previously inaccessible to the Group. It will open up a variety of revenue streams to the Group including commercial advertisement, signal sales, sub-licensing of different blocks of TV program to other TV operators, or joint venture opportunities for profit sharing co-operation with property developers for in-house TV. Eyeing on the PRC markets, the Group has made application to the State Administration of Film, Radio and Television of the PRC for license to broadcast in three-star and/or higher rating hotels and foreign communities through satellite as an initial exploration of the PRC markets.

The Group is also exploring the new opportunities arising from the broadband services by seeking strategic alliances with major internet operators in each of the key regional markets such as Hong Kong and China. The directors expect the Group to make significant breakthrough to become key movie content providers for major broadband operators in the markets.

The Group's 41% owned associated company — China Culture Media Group Co. Ltd. (formerly known as China 10K.com Co. Ltd.), is transforming its internet operation, by reposition itself for a powerhouse of broadband content aggregation and marketing, focusing on broadband content production and aggregation in the areas of animation, interactive movie and cultural programs. Additionally, the Group is in the process of rationalizing the cost structure for the division.

The Group is also strengthening its traditional distribution network of movie licensing and DVD/VCD distribution in the region, aiming to enhance profitability by increasing operation efficiency and market penetration.

Our brand name "Mei Ah Entertainment" has long been a mainstay of the home entertainment industry in the region, looked to by billions of Chinese for the films and tele-features we produce and distribute. We have been successful in our ventures, and boast a film library of popular titles that is one of the most prolific of any in Hong Kong. We will continue to maximize the shareholder returns by positioning ourselves for growth and expansion in the industry and to reward our customers by offering audiovisual products of highest quality.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has banking facilities amounting to HK\$83,274,000 of which 65.5% had been utilized as at 31st March 2001 to finance its normal trading operations.

The Group's gearing ratio as at the balance sheet date was 0.104 (2000: 0.065) which was calculated based on the total bank loans of HK\$39,304,000 (2000: HK\$24,551,000) and shareholders' funds of HK\$376,460,000 (2000: HK\$378,145,000).

EMPLOYEES

As at 31st March 2001, the Group employed 95 staffs. Remuneration is reviewed annually and certain staffs are entitled to commission. In addition to the basic salaries, staff benefits include discretionary bonus, medical insurance scheme and contributory provident fund.

APPRECIATION

Finally, I would like to thank my fellow directors, management team and members of staff for their dedicated service and contribution.

Li Kuo Hsing

Chairman

Hong Kong, 25th July 2001