

The directors submit their report together with the audited accounts for the year ended 31st March 2001.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATION

The principal activity of the company is investment holding. The principal activities of the subsidiaries are set out in note 29 to the accounts.

An analysis of the group's turnover and contribution to operating profit for the year by each principal activity is set out in note 2 to the accounts.

RESULTS AND APPROPRIATIONS

The results for the year are set out in the consolidated profit and loss account on page 21.

The directors do not recommend the payment of a dividend.

CAPITALISATION ISSUE

At the Annual General Meeting held on 28th September 2000, the directors recommended that a bonus issue of two new shares for every one share held on 28th September 2000 be made by capitalising HK\$51,408,280 through a debit to the share premium account of the company.

On 13th October 2000, the date that the bonus issue became unconditional, both the exercise price and the total number of share options granted were adjusted in the manner as disclosed in note 20 to the accounts.

RESERVES

Movements in the reserves of the group and the company during the year are set out in note 21 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets are set out in note 10 to the accounts.

PRINCIPAL PROPERTIES

Details of the principal properties held by the group are set out on page 58.

SHARE CAPITAL

Details of the movements in share capital and share options of the company are set out in notes 19 and 20 to the accounts respectively.

SUBSIDIARIES, ASSOCIATED COMPANIES AND A JOINTLY CONTROLLED ENTITY

Details of the principal subsidiaries, associated companies and a jointly controlled entity are set out in notes 29, 30 and 12 to the accounts respectively.

FIVE YEAR 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 57.

PARTICULARS OF BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

The group's bank loans, overdrafts and other borrowings as at 31st March 2001 are repayable over the following periods:

	Bank loans and overdrafts	Obligations under finance leases
	<i>HK\$'000</i>	<i>HK\$'000</i>
On demand or not exceeding one year	28,292	542
More than one year but not exceeding two years	1,389	353
More than two years but not exceeding five years	1,001	29
Exceeding five years	22,398	—
	<u>53,080</u>	<u>924</u>

MAJOR SUPPLIERS AND CUSTOMERS

The percentages of purchases and sales for the year attributable to the group's major suppliers and customers are as follows:

	2001	2000
Purchases		
— the largest supplier	44%	56%
— five largest suppliers combined	61%	72%
Sales		
— the largest customer	27%	13%
— five largest customers combined	39%	27%

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.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, the company's wholly-owned subsidiary — Mei Ah Investment Company Limited purchased 41,400 shares of HK\$0.1 each of the company at HK\$2 per share for a consideration of approximately HK\$83,000 for the purpose of cancellation. As at year end date, such shares are in the process of cancellation.

Save as disclosed above, neither the company nor any of its subsidiaries purchased, sold or redeemed any of the company's listed securities during the year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the company's Bye-laws or the laws in Bermuda.

DIRECTORS

The directors during the year were:

Mr LI Kuo Hsing (*Chairman*)

Mr TONG Hing Chi

Mr CHAU Kei Leung

Mr CHAN Ngan Piu #

Mr LEE Man Kwong *

Mr CHEUNG Kung Tai *

Non-executive director

* *Independent non-executive directors*

In accordance with clauses 91 and 99 of the company's Bye-laws, Mr CHAN Ngan Piu and Mr LEE Man Kwong retire and, being eligible, offer themselves for re-election.

The term of office for the independent non-executive directors of the company is subject to retirement by rotation and re-election at the annual general meeting in accordance with the company's Bye-laws.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Executive directors

Mr. LI Kuo Hsing, aged 42, is the founder, chairman and a major shareholder of the group, and a recognized leader of the Hong Kong entertainment industry. With over 18 years of experience in the home video and media entertainment industry, he is responsible for the corporate strategy and development of the group. He has also been responsible for the selection and acquisition of film and program titles since the establishment of the group in 1984. He is the Vice Chairman of the Federation of Motion Film Producers of Hong Kong Limited since 1998, Appointed Member of the District Board, Southern District, Hong Kong and also a member of the Election Committee for the Performing Arts sub-sector of the Legislative Council Election.

Mr. TONG Hing Chi, aged 46, is the managing director of the group, responsible for the group's overall general and financial administration. He has also been involved in the group's corporate strategy and development since he joined the group in 1992. He is a fellow of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants. He has over 14 years of experience in the home video and media entertainment industry in Hong Kong and overseas.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

Executive directors *(continued)*

Mr. CHAU Kei Leung, aged 37, is responsible for the selection and acquisition of films and programs and the formulation of sales and marketing strategies. He is also responsible for the sub-licensing of film rights to overseas video distributors and TV operators in Hong Kong and overseas. He joined the group in 1987 and has over 14 years of experience in the home video entertainment industry.

Non-executive directors

Mr. CHAN Ngan Piu, aged 66, has over 32 years of experience in the manufacturing sector in Hong Kong and Mainland China. He joined the Group in 1988.

Independent non-executive directors

Mr. LEE Man Kwong, aged 47, has been practising as a solicitor in Hong Kong for over 17 years and is a partner at Messrs. Chan, Lau, & Wai. He is also a solicitor qualified in England and Wales and Singapore. He joined the group in September 1993.

Mr. CHEUNG Kung Tai, aged 59, is the chairman of Shanghai Double Happiness Crown City Sporting Goods Company Limited. He has extensive investment experience in Mainland China. Mr. Cheung graduated from the University of Pennsylvania, the United States of America with a Bachelor's degree in Commerce in 1979. He joined the group in 1998.

Senior management

Mr. WONG Che Hung, aged 50, is an executive director of several subsidiaries of the group. He is responsible for the production of video features and CD-ROM titles and their quality control. He joined the group in 1987 and has over 25 years of experience in the film industry.

Mr. HO Po Nin, Benny, aged 41, is an executive director of Mei Ah (HK) Company Limited, a subsidiary of the company. He is responsible for formulating the group's sales and marketing strategies. He joined the group in 1989 and has over 13 years of experience in the home video entertainment industry.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT *(continued)***Senior management** *(continued)*

Mr. LAM King Pui, Ken, aged 35 is the group's financial controller and is responsible for all financial and accounting matters of the group. He holds a degree of Bachelor of Arts in Accountancy and is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants. He has over 10 years of auditing and accounting experience in different industries with an international accounting firm. He joined the group in October 1997.

Mr CHOI Chi Lam, aged 52, is the general manager of Guang Dong Tung Ah Audio Video Production Company Limited. He joined the group in 1995 to develop the Mainland China audio video market. He has 23 years of experience in the film and audio video business in Hong Kong and Mainland China.

Mr. AU Hon Ming, William, aged 51, is the Chief Executive Officer of MATV Limited. Mr Au is a television veteran with experience in the television industry for over 24 years. He has worked in Television Broadcasts Limited and Asia Television Limited as senior management. Mr Au left his Vice-presidency in the Marketing & Sales Division of ATV in May 2000 and joined MATV Limited then.

Mr. MA Wai Ho, Joe, aged 37, is the executive director of Brilliant Idea Group Limited. He holds a degree of Bachelor of Arts in History from the University of Hong Kong and has over 16 years of film production and creative experiences. Over the past 11 years, he has directed and produced a number of popular films and he is an executive member of The Hong Kong Film Scriptwriter Association. He joined the group in 1997.

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.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance in relation to the company'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.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 31st March 2001, the interests of the directors, chief executives and their associates in the shares and share options of the company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as recorded in the register maintained by the company under Section 29 of the SDI Ordinance or as notified to the company were as follows:

(a) Ordinary shares of HK\$0.1 each

Name of director	Number of shares beneficially held		
	Personal interest	Family interest	Corporate interest
Mr LI Kuo Hsing	9,937,500	37,968,750 <i>Note (a)</i>	370,241,510 <i>Note (b)</i>
Mr TONG Hing Chi	3,375,000	—	—
Mr CHAN Ngan Pui	2,025,000	—	—
Mr CHAU Kei Leung	7,209,000	—	—

Notes:

- (a) These shares are held by Mrs LI Pik Lin, the spouse of Mr LI Kuo Hsing.
- (b) These shares are held by Kuo Hsing Holdings Limited, a company beneficially owned by Mr LI Kuo Hsing.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES *(continued)***(a) Ordinary shares of HK\$0.1 each** *(continued)*

In addition, Mr LI Kuo Hsing holds non-voting deferred shares of HK\$1 each in the following subsidiaries:

	Number of shares beneficially held
Mei Ah Laser Disc Company Limited	100,000
Mei Ah Video Production Company Limited	10,000
Mei Ah Investment Company Limited	500,000

Save as aforesaid, none of the directors and chief executives (including their spouse and children under 18 years of age) had any other interests in the shares in the company (within the meaning of the SDI Ordinance) which had been entered in the register kept by the company pursuant to Section 29 of the SDI Ordinance.

(b) Share options

On 24th September 1993, a share option scheme (the "Share Option Scheme") was approved by the shareholders of the company under which its directors may, at their discretion, invite employees of the group including any executive directors to take up options (the "Share Options") to subscribe for ordinary shares of HK\$0.1 each in the company subject to the terms and conditions stipulated therein.

On 28th January 2000, the company granted an aggregate of 14,000,000 Share Options to all the executive directors to acquire shares of HK\$0.1 each in the company. The Share Options are exercisable from 19th August 2000 to 18th August 2002. The exercise price of the outstanding Share Options was adjusted from HK\$3.38 per share to HK\$1.1267 per share and the number of outstanding Share Options was also adjusted from 14,000,000 shares to 42,000,000 shares to reflect the effect of the bonus issue of the company during the year.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES *(continued)*

(b) Share options *(continued)*

No such Share Options were exercised during the year. As at 31st March 2001, the outstanding Share Options granted by the company to the executive directors were as follows:

Name of Director	Number of Share Options
Mr LI Kuo Hsing	15,000,000
Mr TONG Hing Chi	13,500,000
Mr CHAU Kei Leung	13,500,000

Apart from the above, at no time during the year was the company or its subsidiaries a party to any arrangements to enable the directors and chief executives (including their spouse and children under 18 years of age) to acquire benefits by means of the acquisition of shares in, or debentures of, the company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

At 31st March 2001, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the company had not been notified of any substantial shareholders' interest, being 10% or more of the company's issued share capital, other than those of the directors, chief executives and their associates as disclosed above.

DISTRIBUTABLE RESERVES

At 31st March 2001, the reserves of the company available for distribution amounted to approximately HK\$169,556,000 (2000: HK\$169,728,000). These were represented by the contributed surplus less accumulated losses of the company. Under the company's Bye-laws, the contributed surplus of the company is available for distributions to shareholders provided that immediately following the distributions, the company is able to pay its debts as they fall due in the ordinary course of business.

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.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

The Code of Best Practice has been complied with by the company during the year ended 31st March 2001 as set out in Appendix 14 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (“Listing Rules”).

AUDIT COMMITTEE

Pursuant to the Listing Rules, an audit committee, comprising two independent non-executive directors, namely Mr LEE Man Kwong and Mr CHEUNG Kung Tai, was established on 8th December 1999.

By reference to “A Guide for The Formation of An Audit Committee” published by the Hong Kong Society of Accountants, written terms of reference which describe the authority and duties of the audit committee were prepared and adopted by the board of the company on the same date. The principal activities of the audit committee include the review and supervision of the group’s finance reporting process and internal controls.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet date events are set out in note 28 to the accounts.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the board

Li Kuo Hsing
Chairman

Hong Kong, 26th July 2001