

## CHAIRMAN'S STATEMENT

### RESULTS AND DIVIDENDS

On behalf of the board of directors, I present the audited results of Mei Ah Entertainment Group Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31st March 2002. The Group recorded an audited consolidated turnover of HK\$164,244,000, a decrease of 20% as compared with last year. Loss attributable to the shareholders was HK\$99,763,000. The directors do not recommend the payment of any dividend for the year ended 31st March 2002.

### MANAGEMENT DISCUSSION AND ANALYSIS

#### Review of operations

##### *Overview*

Current year's loss was mainly attributable to the provisions for impairment loss on film rights and doubtful receivables of HK\$67.9 million and HK\$13.3 million respectively. Following the adoption of newly effective Statement of Standard Accounting Practice ("SSAP") No. 31, the results of the Group last year was also restated from a previously reported profit of HK\$1.2 million to a loss of HK\$8.6 million, which is attributable to the impairment of goodwill amounting to HK\$9.8 million arising from the acquisition of additional equity interest in an associated company during the year ended 31st March 2001.

The impairment losses on film rights and goodwill was determined with reference to directors' estimation of the expected future revenues and the recoverable amount of those film rights and the investment in the associated company at the balance sheet date.

During the year, the disposal of 20% interest in a subsidiary resulted in a gain of approximately HK\$21 million.

##### *Distribution of films and programs in audio visual product formats*

Turnover of distribution of films and programs in audio visual product formats, which contributed approximately 80% of the Group's total turnover for the year, has decreased by approximately 18% from HK\$162 million to HK\$132 million. The drop in performance was mainly due to the weakened consuming power and the increasing price pressure as a result of the continuous economic downturn during the year. Turnover from the sale of Video Compact Disc ("VCD") products and Digital Versatile Disc ("DVD") products dropped by 12% and 5% respectively. Although the demand in DVD products has grown since last year, the growth in sales quantity cannot compensate for the effect of price cut and an overall decrease was resulted.

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### *Film exhibition and film rights sub-licensing*

Turnover of film exhibition and film rights sub-licensing has dropped by 24% from HK\$40 million to HK\$31 million. During the year, less films (2002: 6; 2001: 7) were produced by the Group and the general global weakness of economies has led to a downturn in the demand of the Group's sub-licensed film rights.

### **Prospects**

The directors are of the view that the Group's future development will be benefited by the Group's investments in the past few years and the future economic recovery.

The Group is optimistic on the development potential of TV market and accordingly has made several investments to penetrate into that market. In March 2001, a pan-regional satellite movie channel service was launched and in April 2001, the Group was granted a non-domestic television program service license for a period of 12 years by the Broadcasting Authority Hong Kong. The Group has also made application to the State Administration of Film, Radio and Television in China for license to broadcast in hotels and foreign communities through satellite. In order to enhance the output quality of its TV operation, in July 2002, the Group entered into an agreement with M21 R&D Corporation Limited ("M21 R&D"), an associated company of the Group. Pursuant to which M21 R&D will make use of its digitised equipment platform to provide playout, editing and post production services to the Group. Although the returns from the Group's TV operation is not significant presently, the directors believe that the operation is still in its investment stage and will ultimately bring significant contributions to the Group in the near future.

In the recent years, the Group has continuously committed to distribute customised video products to its customers and has placed a great deal of effort in building up and the enhancement of its movie library through product media proliferation, market expansion and acquisition of film rights from various film production companies. The directors are confident that the movie library is one of the most prolific Chinese movie libraries in the world and acts as a strong base to support the Group's distribution business as well as its TV operation. Looking forward, the Group will endeavour to distribute popular movies and programs to strengthen its competitiveness as well as creating new income streams to the Group.

Following the completion of the construction of the Group's headquarter in Tseung Kwan O during the year, the operations of the Group have been integrated and the operational efficiency of the Group has now been further improved. Supplemented by the efforts from the Group's executives and staff, the directors believe that the Group has developed a solid foundation to benefit from the economic turnaround in the near future.

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### LIQUIDITY AND FINANCIAL RESOURCES

At 31st March 2002, the Group has available banking facilities of approximately HK\$72 million, of which approximately HK\$67 million were utilised. Subsequent to the balance sheet date, an additional banking facility of HK\$10 million was obtained for financing the Group's working capital. At 31st March 2002, certain of the Group's properties and plant and machinery with net book values of HK\$120 million and HK\$18 million respectively were pledged to banks to secure the banking facilities. The Group's gearing ratio as at 31st March 2002 of 24% was based on the total of bank loans, overdrafts and obligations under finance leases of approximately HK\$66,193,000 (of which HK\$29,925,000, HK\$6,279,000, HK\$15,167,000 and HK\$14,822,000 are repayable within one year, in the second year, in the third to fifth year and after the fifth year respectively) and the shareholders' funds of approximately HK\$271,661,000. The Group's borrowings and cash balances are primarily denominated in Hong Kong dollars and the Group has no significant exposure to foreign currency fluctuations.

At 31st March 2002, the Group had contingent liabilities in respect of guarantees given to banks for facilities of associated companies amounting to approximately HK\$7.7 million, and commitments in respect of acquisition of film rights of approximately HK\$69 million. The commitments will be financed by the Group's internal resources and banking facilities.

### EMPLOYEES

At 31st March 2002, the Group employed 91 staff. Remuneration is reviewed annually and certain staff are entitled to commission. In addition to the basic salaries, staff benefits include discretionary bonus, medical insurance scheme and contributory provident fund. The Group also has a share option scheme whereby qualifying employees may be granted options to acquire shares of the Company.

### APPRECIATION

I would like to conclude this statement by thanking the Group's suppliers, customers and shareholders for their excellent support, my fellow directors, the Group's executives, management and all of the staff for their hard work and commitment during the year.

**Li Kuo Hsing**

*Chairman*

Hong Kong, 26th July 2002