

REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts for the year ended 31st March 2002.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

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

An analysis of the Group's performance for the year by business and geographical segments is set out in note 2 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 23.

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 22 to the accounts.

FIXED ASSETS

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

PRINCIPAL PROPERTIES

Details of the principal properties held by the Group for investment purposes are set out on page 80.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in share capital and share options of the Company are set out in notes 20 and 21 to the accounts respectively.

DISTRIBUTABLE RESERVES

At 31st March 2002, the reserves of the Company available for distribution, comprising the contributed surplus less accumulated losses, amounted to approximately HK\$668,000. Under the Companies Act 1981 of Bermuda (as amended), a company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; (ii) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.



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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.

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 79.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the year ended 31st March 2001, 41,400 ordinary shares (before the bonus issue of 2 new shares for every 1 share in October 2000) of HK\$0.1 each of the Company were purchased by its wholly-owned subsidiary, Mei Ah Investment Company Limited, at a price of HK\$2 per share through The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). These shares were cancelled in September 2001.

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

SHARE OPTION SCHEME

On 24th September 1993 (the "Commencement Date"), a share option scheme (the "Scheme") was approved by the shareholders of the Company. Details of the Share Option 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 Group.

(b) Participants of the Scheme

The Company may offer to grant share options (the "Options") to any full-time employees (the "Employee"), including any executive directors of the Company and its subsidiaries, 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 77,100,000, representing 10% of the issued share capital of the Company at the date of this report.

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SHARE OPTION SCHEME *(continued)*

(d) **Maximum entitlement of each participant**

No Employee shall be granted an Option which, if exercised in full, would result in such Employee becoming entitled to subscribe for such number of shares as when aggregated with the total number of shares already issued under all the Options previously granted to him which have been exercised, and, issuable under all the Options previously granted to him which are for the time being subsisting and unexercised, would exceed 25 per cent. of the aggregate number of shares for the time being issued and issuable under the Scheme.

(e) **Remaining life and the exercisable period of the Options**

The Scheme shall be valid and effective for a period of 10 years from the Commencement Date and it will remain valid until 23rd September 2003, after which period no further Options will be granted. The Options granted may be exercised at any time during a period of 2 years commencing on the expiry of 6 months after the date upon which the Options is accepted and expiring on the last day of the 2 years' period.

(f) **Payment on acceptance of the Options offer**

A sum of HK\$10 is payable by the Employee on acceptance of the Options offer.

(g) **Basis of determining the subscription price**

The subscription price for shares in relation to the Options to be granted under the Scheme shall be determined by the Board of Directors and notified to an Employee being not less than (i) 80 per cent. of the average of the closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer (the "Offer Date") of the Options; or (ii) the nominal value of the shares of the Company, whichever is the higher.

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SHARE OPTION SCHEME (continued)

Details of the Share Options outstanding as at 31st March 2002 which have been granted under the Share Option Scheme are as follows:

Name of Directors	Options held at 1st April 2001	Options lapsed during the year	Options held at 31st March 2002	Exercise price HK\$	Date of grant	Exercisable from	Exercisable until
Mr. LI Kuo Hsing	15,000,000	—	15,000,000	1.1267	28th January 2000	19th August 2000	18th August 2002
Mr. TONG Hing Chi	13,500,000	—	13,500,000	1.1267	28th January 2000	19th August 2000	18th August 2002
Mr. CHAU Kei Leung	13,500,000	—	13,500,000	1.1267	28th January 2000	19th August 2000	18th August 2002
Employees	18,000,000	(990,000)	17,010,000	1.1267	28th January 2000	19th August 2000	18th August 2002
	<u>60,000,000</u>	<u>(990,000)</u>	<u>59,010,000</u>				

Note: 930,000 Options were lapsed subsequent to 31st March 2002.

DIRECTORS

The directors during the year were:

Executive directors

Mr. LI Kuo Hsing (*Chairman*)

Mr. TONG Hing Chi

Mr. CHAU Kei Leung

Dr. YOU Jing Feng (appointed on 27th August 2001)

Non-executive director

Mr. CHAN Ngan Piu

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DIRECTORS *(continued)*

Independent non-executive directors

Mr. LEE Man Kwong

Mr. CHEUNG Kung Tai

In accordance with clauses 91 and 99 of the Company's bye-laws, Dr. YOU Jing Feng and Mr. CHAU Kei Leung 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.

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 contracts 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.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out on pages 9 to 10.

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DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

At 31st March 2002, the interests of the directors and chief executives in the shares and the 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 in Mei Ah Entertainment Group Limited**

Name of director	Number of shares beneficially held		
	Personal interests	Family interests	Corporate interests
Mr. LI Kuo Hsing	11,453,500	37,968,750 <i>Note (i)</i>	381,627,510 <i>Note (ii)</i>
Mr. TONG Hing Chi	3,375,000	—	—
Mr. CHAN Ngan Piu	2,025,000	—	—
Mr. CHAU Kei Leung	7,209,000	—	—

Notes:

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

(b) Details of Share Options granted to the directors are summarised above in the section headed “Share option scheme”.

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

(c) Interest in subsidiaries of the Company

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

Name	Number of non-voting deferred shares held Personal interests
Mei Ah Laser Disc Company Limited	100,000
Mei Ah Video Production Company Limited	10,000
Mei Ah Investment Company Limited	500,000

With the exception of the Share Option Scheme detailed above, 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.

Save as aforesaid, at no time during the year, the directors and chief executives (including their spouse and children under 18 years of age) had any interest in or had been granted or exercised, any rights to subscribe for shares of the Company and its associated companies (within the meaning of the SDI Ordinance).

SUBSTANTIAL SHAREHOLDERS

At 31st March 2002, 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 and chief executives as disclosed above in "Directors' interests in equity or debt securities".

DISCLOSURE UNDER PRACTICE NOTE 19 OF THE LISTING RULES

At 31st March 2002, 30,000,000 ordinary shares of the Company held by Kuo Hsing Holdings Limited, the controlling shareholder of the Company, were pledged to a bank to secure general banking facilities granted to the Group. Details of the facilities have been set out in note 27 to the accounts.

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CONNECTED TRANSACTIONS

The related party transactions as disclosed in note 28 to the accounts do not constitute connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

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.

PARTICULARS OF BANK LOANS, OVERDRAFTS AND OBLIGATIONS UNDER FINANCE LEASES

The Group’s bank loans, overdrafts and obligations under finance leases as at 31st March 2002 are repayable over the following periods:

	Bank loans and overdrafts <i>HK\$'000</i>	Obligations under finance leases <i>HK\$'000</i>
On demand or not exceeding one year	28,465	1,460
More than one year but not exceeding two years	4,819	1,460
More than two years but not exceeding five years	14,457	710
Exceeding five years	14,822	—
	<u>62,563</u>	<u>3,630</u>

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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:

Purchases

— the largest supplier	43%
— five largest suppliers combined	49%

Sales

— the largest customer	23%
— five largest customers combined	32%

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.

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 2002 as set out in Appendix 14 of the Listing Rules.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of 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 two independent non-executive directors, namely Mr. LEE Man Kwong and Mr. CHEUNG Kung Tai. Two meetings were held during the current financial year.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the directors or management shareholders of the Company (as defined in the Main Board Listing Rules) has an interest in a business which compete or may compete with the business of the Group.

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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 2002