

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 2003. The turnover and loss attributable to shareholders of the Group for the year was approximately HK\$176.7 million (2002: HK\$164.2 million) and HK\$33.0 million (2002: HK\$99.8 million) respectively, representing 7.5% increase and 67% decrease respectively compared with last year. Loss for the year was mainly attributable to the provision for amounts due from associated companies of approximately HK\$11.6 million (2002: HK\$5.6 million), deficit on revaluation of properties not covered by previous revaluation surplus of approximately HK\$7 million (2002: HK\$1.6 million) and impairment for film sub-licensing rights and deposits of approximately HK\$6.7 million (2002: HK\$67.9 million). The directors do not recommend the payment of any dividend for the year ended 31st March 2003.

REVIEW OF OPERATIONS

Sale and distribution of films and programs in audio visual product format, which contributed 77.6% of the total turnover for the year, has increased by approximately 3.8% to approximately HK\$137.1 million (2002: HK\$132.1 million) for the year and continues to be the major source of income to the Group. Income from film exhibition and film rights licensing and sub-licensing has decreased by 35.8% to approximately HK\$19.7 million (2002: HK\$30.7 million). During the year, the Group's television operations generated approximately HK\$19.3 million (2002: Nil) turnover to the Group.

Despite the tough business environment, the Group's turnover from its principal business, sale and distribution of Video Compact Disc ("VCD") and Digital Versatile Disc ("DVD") products still showed a growth. During the year, the Group has acquired the exclusive distribution rights from China Star Entertainment Limited and Riche Multi-Media Holdings Limited to distribute films in their film libraries in Hong Kong and Macau for a period of 3 years. The Group has also diversified its distribution channels and product categories through the penetration into the retail market and the distribution of karaoke VCD and DVD during the year.

Through product media proliferation, market expansion and acquisition of film rights from various film production companies, the movie library established by the Group has become one of the prolific Chinese movie libraries in the world. The Group will endeavour to distribute popular movies and programs in order to strengthen its competitiveness and create new income streams.

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The decrease in the Group's turnover from film exhibition and film rights licensing and sub-licensing is caused by the general global weakness of economies which led to the downturn in the entertainment industry. Nevertheless, the Group always aims to produce films with high quality. In November 2002, "Big Head Monster", a film produced by the Group, won the Best Editing Award of Milan International Film Festival. "PTU", another film produced by the Group, was also selected as the opening film of the 27th Hong Kong International Film Festival and invited to participate in a number international film festivals. Following the increasing number of TV channels, including pay TV, to be operated in Hong Kong, the demand for TV channel contents will increase accordingly and the Group, being a content supplier which provides high quality programs and films, will obviously benefit from these new market opportunities.

During the year, the Group's television operations contributed turnover of approximately HK\$19.3 million. The Group was granted a non-domestic television program service license in 2002, and will continue to explore sources of potential revenue streams in these areas of operations.

The Group is also optimistic about the development potential of film and audio visual industry in the People's Republic of China ("PRC") market, in particular after PRC's entry into the World Trade Organisation and the recent Mainland and Hong Kong Closer Economic Partnership Agreement, which expand market demands for entertainment products, improve the protection of copyrights and remove certain restrictions for penetration into the PRC market. Through Guangzhou Tung Ah Audio Video Production Company Limited, the Group's jointly controlled entity in PRC which owns a movie and TV library of over 1,000 hours' content and a strong distribution network in PRC, the Group is well positioned to capitalise on the new market opportunities.

Following the completion of the Group's headquarter in Tseung Kwan O, the operations of the Group have been integrated and the operational efficiency of the Group has now been further enhanced. In addition, the Group also implemented stringent control over its costs by streamlining its operational workflow.

Looking forward, the Group will exploit every opportunities for positive results and generate returns for its shareholders. Supported by the Group's experienced management and clearly defined business strategies, 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 2003, the Group had available banking facilities of approximately HK\$75 million, of which approximately HK\$72 million were utilised. Certain of the Group's properties and fixed deposits with net book values of HK\$139 million and HK\$0.5 million respectively were pledged to banks to secure banking facilities. The Group's gearing ratio of 29.5% as at 31st March 2003 was based on the total of bank loans, overdrafts and obligations under finance leases of approximately HK\$70,294,000 (of which HK\$35,666,000, HK\$9,126,000, HK\$24,309,000 and HK\$1,193,000 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\$238,594,000. The Group's borrowings and bank balances are primarily denominated in Hong Kong dollars and the Group has no significant exposure to foreign currency fluctuations.

At 31st March 2003, the Group had net current liabilities of HK\$31,312,000. Nevertheless, the Group's film rights, films in progress, film sub-licensing rights and deposits, which are classified as non-current assets, generate revenues for the core business of the Group continuously and the directors are confident that the working capital available in the coming year will be adequate to meet the obligations due within one year.

At 31st March 2003, the Group had contingent liabilities in respect of guarantees given to banks for facilities of associated companies amounting to HK\$9 million, and commitments in respect of property, plant and machinery and acquisition of film rights of approximately HK\$159,000 and HK\$29,340,000 respectively. The commitments will be financed by the Group's internal resources and banking facilities.

EMPLOYEES

At 31st March 2003, the Group employed 73 staff. Remuneration is reviewed annually and certain staff members are entitled to commissions. 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 qualified employees may be granted options to acquire shares of the Company.

Li Kuo Hsing

Chairman

Hong Kong, 28th July 2003