

## 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 2004. The loss attributable to shareholders of the Group for the year was decreased from approximately HK\$33 million to approximately HK\$5.6 million. The directors do not recommend the payment of any dividend for the year ended 31st March 2004.

## MANAGEMENT DISCUSSION AND ANALYSIS

Sale and distribution of films and programs in audio visual product format, which contributed 76% of the total turnover for the year, has decreased by approximately 2.9% to approximately HK\$133.1 million (2003: approximately HK\$137.1 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 slightly to approximately HK\$19.4 million (2003: approximately HK\$19.7 million). During the year, the Group's television operations generated approximately HK\$22.5 million (2003: approximately HK\$19.3 million) turnover to the Group.

The keen market competition and the outbreak of Severe Acute Respiratory Syndrome in the first half of the financial year which caused severe adverse impacts on the economic environment and various business sectors, including entertainment industry, hit the Group's income from its major business segment. Despite the diversification of its distribution channels and product categories through the penetration into the retail market and the distribution of karaoke VCDs and DVDs since 2002/03, the sale and distribution of films and programs in audio visual product format still showed a slight decline of 2.9% compared with last year.

The Group has continuously committed to distribute customised audio visual products and has placed a great deal of effort in building up and the enhancement of its movie library through market expansion and acquisition of high quality and popular films from various film production companies. The Group will continue to enrich the content of its well-established movie library and make use of this valuable asset to generate highest return to its shareholders.

**MANAGEMENT DISCUSSION AND ANALYSIS** (Continued)

Income from the film exhibition and film rights licensing and sub-licensing kept stable. During the year, two films, namely "PTU" and "Men Suddenly In Black" were released by the Group and "Love Undercover 2" was released by Brilliant Idea Group Limited, the Group's 50% owned associated company. "PTU" was selected as the opening film of the 27th Hong Kong International Film Festival and invited to participate in a number of international film festivals. In December 2003, "PTU" and "Men Suddenly In Black" were nominated 11 and 4 Awards respectively in the 40th Golden Horse Awards and "PTU" won the Award of Best Original Screenplay. In the 9th Golden Bauhinia Award held in March 2004, "PTU" and "Men Suddenly In Black" were elected among the ten best Chinese films and "PTU"

won the Best Film Award and five other awards, including the Best Director, the Best Actor, the Best Screenplay, the Best Supporting Actor and the Best Supporting Actress. In addition, in the 23rd Hong Kong Film Award held in April 2004, "PTU" won the Best Director Award and "Men Suddenly In Black" won the Best New Director and the Best Supporting Actor Awards. "Love Undercover 2" also received encouraging responses from the market in its theatrical, video discs release and overseas sub-licensing. The Group will continue to invest in the film production industry and produce high quality films which are well-accepted by the market.



In 2001, the Group was granted a 12-years non-domestic television program service license and launched its first broadcasting channel, namely MATV1, which provides movies from its film library and other programs sourced from business partners. MATV1 is broadcasting free-to-air through satellite and mainly covers the South East Asia region. Since then, the Group has explored sources of potential revenue streams from its TV operations continuously. During the year, a number of new pay-TV channels, including now TV, ex-TV and HK Broadband, commenced operations in Hong Kong and the Group has secured contracts with the operators of ex-TV and HK Broadband to provide movie channels, namely MATV and MATV2 commencing from 18th February 2004 and 28th March 2004 respectively. The Group aims to develop the above channels and position them uniquely as "Chinese

HBO". Following the increasing number of TV channels in Hong Kong, including the recently announced plan of digital TV signal development which allows more broadcasting channels than the existing analogue system, the demand for TV channels contents is expected to increase significantly and the Group will continue to operate channels comprising other programs such as drama and infotainment. Equipped by the solid foundation in its TV channels and network through investment for years and backed by its valuable movie library, the Group believes that it will continue to receive encouraging rewards, benefit from new market opportunities and enjoy the prospects of TV operations.

## **MANAGEMENT DISCUSSION AND ANALYSIS** *(Continued)*

The Group is also optimistic about the development potential of film and audio visual industry in the Mainland China ("China") market, in particular after China's entry into the World Trade Organisation and the 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 China market. The Group is well positioned to capitalise on the aforesaid market opportunities through its strong distribution network.

In May 2004, the Group disposed of its entire interest in M21 Technology Limited ("M21"), an associated company listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited at a consideration of approximately HK\$25 million. The net profit on the disposal, calculated with reference to the Group's share of M21's net assets up to 31st March 2004 (the date when the latest published accounts of M21 is available) amounted to approximately HK\$15.7 million. The directors consider the disposal represent a good opportunity for the Group to realise its investment in M21 and after considering the rewarding profit and the strengthen of the Group's working capital from the proceed, the directors are of the view that the disposal is beneficial to the shareholders of the Company and accordingly has determined the disposal. The proceed will be used to finance the Group's general working capital.

Following the implementation of effective and stringent cost control measures, the Group's selling and marketing expenses and administrative expenses were decreased by 23% and 26% respectively. 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.

## **LIQUIDITY AND FINANCIAL RESOURCES**

At 31st March 2004, the Group has available banking facilities of approximately HK\$71 million, of which approximately HK\$59 million were utilised. Certain of the Group's properties and fixed deposits with net book values of HK\$142 million and HK\$0.5 million respectively were pledged to banks to secure banking facilities. The Group's gearing ratio of 24% as at 31st March 2004 (comparing to 29% as at 31st March 2003) was based on the total of bank loans, bank overdrafts and obligations under finance leases of approximately HK\$57,309,000 (of which HK\$32,022,000, HK\$5,046,000, HK\$16,280,000 and HK\$3,961,000 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\$234,927,000. 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.

## Chairman's Statement

### **LIQUIDITY AND FINANCIAL RESOURCES** *(Continued)*

At 31st March 2004, the Group has net current liabilities of HK\$24,379,000. 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 2004, the Group had contingent liabilities in respect of guarantees given to banks for facilities of associated companies amounting to approximately HK\$5.3 million, the Company also guaranteed the bank facilities of certain subsidiaries amounting to approximately HK\$68.3 million. The Group had commitments in respect of film production and acquisition of film rights of approximately HK\$13.4 million. The commitments will be financed by the Group's internal resources and banking facilities.

### **EMPLOYEES**

At 31st March 2004, the Group employed 59 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.

**Li Kuo Hsing**

*Chairman*

Hong Kong, 26th July 2004