

# CORPORATE INFORMATION

## Directors

### *Executive Directors*

Li Kuo Hsing (*Chairman*)  
Tong Hing Chi  
Chau Kei Leung

### *Non-Executive Director*

Chan Ngan Piu

### *Independent Non-Executive Directors*

Lee Man Kwong  
Cheung Kung Tai

## Company secretary

Tong Hing Chi

## Registered office

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

## Head office and principal place of business

Units 15-28  
17th Floor  
Metro Centre Phase 1  
32 Lam Hing Street  
Kowloon Bay  
Kowloon  
Hong Kong

## Principal bankers

The Hongkong & Shanghai Banking Corporation Limited  
The National Commercial Bank, Limited

## Auditors

PricewaterhouseCoopers  
Certified Public Accountants

## Legal advisors

Baker & MCKenzie

## Principal share and warrant registrar and transfer office

Butterfield Corporate Services Limited  
Rosebank Centre  
14 Bermudiana Road  
Pembroke  
Bermuda

## Hong Kong branch share registrar, warrants registrar and transfer office

Tengis Limited  
4/F Hutchison House  
10 Harcourt Road  
Central  
Hong Kong

## Audit committee

Lee Man Kwong  
Cheung Kung Tai

## Authorized representatives

Li Kuo Hsing  
Tong Hing Chi

website : [www.meiah.com](http://www.meiah.com)  
e-mail : [meiah@meiah.com](mailto:meiah@meiah.com)

# NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the members of the Company will be held at Level 7, Chatham Room, Conrad International Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Thursday, 28 September 2000 at 3:30 p.m. for the following purposes:

1. To receive and consider the Audited Consolidated Financial Statements and the Reports of the Directors and of the Auditors for the year ended 31 March 2000;
2. To re-elect directors, authorise the Board to fix the Directors' remuneration and set a maximum number of Directors;
3. To re-appoint auditors and authorise the Board to fix their remuneration;
4. To consider as Special Business and, if thought fit, pass with or without amendments the following resolution as an Ordinary Resolution:—

“**THAT** conditional upon the listing of, and permission to deal in, Bonus Shares (as defined below) to be issued by the Company pursuant to this Resolution having been or being granted by the Listing Committee of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and (if required) the permission having been or being granted by the Bermuda Monetary Authority:

- (a) upon the recommendation of the Directors, it is desirable that such part of the amount standing to the credit of the share premium account and/or the contributed surplus account of the Company would be required to be applied in paying up in full at par bonus shares of HK\$0.10 each in the capital of the Company (“Bonus Shares”), such shares to be allotted and distributed (subject as referred to in paragraph (c) below) and credited as fully paid among the persons who are registered as holders of the existing issued shares in the capital of the Company on 28th September 2000 on the basis of two Bonus Shares for every existing share held, be capitalised and applied in such manner and the Directors be and they are hereby authorized to allot and issue Bonus Shares;
- (b) Bonus Shares shall rank *pari passu* in all respects with the existing issued shares of HK\$0.10 each in the capital of the Company at the date of issue;
- (c) no fractional Bonus Shares shall be allotted and distributed as aforesaid, but Bonus Shares representing fractional entitlements shall be aggregated and sold for the benefit of the Company; and
- (d) the Directors be authorised to do all acts and things as may be necessary and expedient in connection with the issue of Bonus Shares referred to in paragraph (a) of this Resolution, including but not limited to, determining the amount to be capitalised out of the share premium account and/or the contributed surplus account of the Company and the number of unissued shares to be allotted and distributed in the manner referred to in paragraph (a) of this Resolution.”

# NOTICE OF ANNUAL GENERAL MEETING

5. To consider as Special Business and, if though fit, pass with or without amendments the following resolution as an Ordinary Resolution:

“THAT

- (a) the exercise by the Directors during the Relevant Period of all the powers of the Company to purchase its shares subject to and in accordance with the applicable laws, be and is hereby generally and unconditionally approved;
- (b) the total nominal amount of shares to be purchased pursuant to the approval in paragraph (a) above shall not exceed 10% of the total nominal amount of the share capital of the Company in issue on the date of this Resolution as extended by the number of shares to be allotted and issued pursuant to Resolution number 4 passed at this Meeting to which this Resolution forms part, and the said approval shall be limited accordingly; and
- (c) for the purpose of this Resolution, “Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:
  - (i) the conclusion of the next Annual General Meeting of the Company;
  - (ii) the revocation or variation of the authority given under this Resolution by Ordinary Resolution of the shareholders in general meetings; and
  - (iii) the expiration of the period within which the next Annual General Meeting of the Company is required by the Bye-Laws of the Company or any applicable laws to be held”;

6. To consider as Special Business and, if though fit, pass with or without amendments, the following resolution as an Ordinary Resolution;

“THAT

- (a) the exercise by the Directors during the Relevant Period of all the powers of the Company to issue, allot and deal in additional shares of the Company and to make or grant offers, agreements and options which would or might require shares to be allotted, issued or deal in during or after the end of the Relevant Period, in addition to any shares which may be issued on the exercise of the subscription rights under the warrants issued by the Company, be and is hereby generally and unconditionally approved, provided that, otherwise than pursuant to a rights issue where shares are offered to shareholders on a fixed record date in proportion to their then holdings of shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong) or any option scheme or similar arrangement for the time being adopted for the grant or issue to employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company, or any scrip dividend scheme or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Bye-Laws of the Company, the total nominal amount of additional shares issued, allotted, deal in or agreed conditionally or unconditionally to be issued, allotted or deal in (whether pursuant to an

# NOTICE OF ANNUAL GENERAL MEETING

option or otherwise) shall not in total exceed 20% of the total nominal amount of the share capital of the Company in issued on the date of this Resolution as extended by the number of shares to be allotted and issued pursuant to Resolution number 4 passed at this Meeting to which this Resolution forms part, and the said approval shall be limited accordingly; and

- (b) for the purpose of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:
  - (i) the conclusion of the next Annual General Meeting of the Company;
  - (ii) the revocation or variation of the authority given under this Resolution by Ordinary Resolution of the shareholders in general meetings; and
  - (iii) the expiration of the period within which the next Annual General Meeting of the Company is required by the Bye-Laws of the Company or any applicable laws to be held."; and

- 7. To consider as Special Business and, if thought fit, pass with or without amendments the following resolution as an Ordinary Resolution;

"THAT the general mandate granted to the Directors of the Company pursuant to Resolution 6 above and for the time being in force to exercise the powers of the Company to allot shares and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby extended by the total nominal amount of shares in the capital of the Company repurchased by the Company of the powers of the Company to purchase such shares, provided that such amount shall not exceed 10% of the total nominal amount of the share capital of the Company in issue of the date on this Resolution as extended by the number of shares to be allotted and issued pursuant to Resolution number 4 passed at this Meeting to which this Resolution forms part."

By Order of the Board  
**Tong Hing Chi**  
*Company Secretary*

Hong Kong, 28 August 2000

*Notes:*

- (a) The Register of Members will be closed from Thursday, 21 September 2000 to Thursday 28 September 2000, both days inclusive, during which period no transfer of shares can be registered.
- (b) A member entitled to attend and vote at the Meeting is entitled to appoint more than one proxy to attend and, in the event of a poll, vote on his behalf. A proxy need not be a member of the Company. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
- (c) The instrument appointing a proxy and the power of attorney or other authority, if any under which it is signed, or a notarially certified copy of such power or authority, must be lodged with the Company's Branch Registrars in Hong Kong, Tengis Limited at 4/F Hutchison House, 10 Harcourt Road, Hong Kong not less than 48 hours before the time fixed for holding the Meeting.
- (d) A circular setting out further information regarding Resolutions 4 to 7 above will be despatched to shareholders with the 2000 Annual Report.

# CHAIRMAN'S STATEMENT

## GROUP RESULTS

On behalf of the directors, I am pleased to present the Group's results for the year ended 31st March 2000.

## DIVIDEND

The directors do not recommend the payment of any dividend for the year ended 31 March 2000 (1999: Nil).

## BONUS ISSUE

The directors decided to recommend to the shareholders at the Annual General Meeting to be held on 28th September 2000 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 and/or the contributed surplus account of the Company. The bonus share will, when issued, rank pari passu in all respects with the existing issued shares of the Company.

Subject to approval by the shareholders at the Annual General Meeting and conditional upon The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting listing of and permission to deal in the bonus shares, the share will be issued to the shareholders whose names appear on the register of members on 28th September 2000. Share certificates for the bonus shares are expected to be posted to shareholders on or before 16th October 2000. Application will also be made to the Bermuda Monetary Authority for approval for the allotment and issue of the bonus shares. Dealings in the bonus shares are expected to commence on the Stock Exchange on 18th October 2000.

Other than on the Stock Exchange, there is no other stock Exchange on which any of the shares in issue of the Company are listed or dealt in or on which listing permission to deal is being sought.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Overview of the Group

After two years of business transformation, the Group has entered into a new phase of operation. In addition to the core activities of production and distribution of films and programs, the Group has extended its business in e-commerce and internet content provision by investing a 45% equity interest in China 10K.com (BVI) Company Limited - a website providing contents of Chinese culture and history.

# CHAIRMAN'S STATEMENT

Moreover, the Group's wholly owned subsidiary - Mei Ah Webcast International Corporation Limited, holding a Public Non-Exclusive Telecommunications Service (PNets) Licence since March 1996, providing network technology supportive services as well as technological consultancy to reputable local and overseas customers, has further accredited the ISO 9001 Certificate in May 2000 in recognition of its quality of services and standing as Application Service Provider (ASP) in the industry.

Through the strengthening of cooperation with the Group's associated company - Mei Ah Cyberworks Corporation Limited, an optical disc and stamper mastering manufacturer, by increasing the equity interest from 35% to 45% during the year, the Group has not only secured the source of its products for distribution, but also maintained the cost of production at a very competitive level, thus increment of profit margin. The said stamper mastering company has also accredited for ISO9002 Certificate in March 2000.

The above positive factors together with the government's continuous effort in fighting against piracy had led to a 33% increment in turnover from HK\$144,532,000 to HK\$192,493,000 and profit attributable to shareholders of HK\$18,095,000 (1999: loss attributable to shareholders of HK\$57,290,000).

## **Film and Program Distribution in Audio Visual Product formats**

Comparing with last year, turnover for film and program distribution in Video Compact Disc ("VCD") format has increased by 97% whereas in Digital Versatile Disc ("DVD") format has increased by 59%. The strong growth in optical disc products was mainly attributed to the devoting efforts by the Hong Kong Government in fighting against piracy and the Group's efforts to procure a more comprehensive range of films and programs including blockbusters, TV series of Chinese famous readings, collections of well-known Japanese directors, educational CD-ROMs, documentary series of introducing Chinese custom and medicated meals, nature, animal and the famous Chinese historical person epic TV series.

## **Film Exhibition and Film Rights Sub-licensing**

Turnover for film exhibition and film rights sub-licensing has decreased by 23% in the year under review because of the Group's strategy of being more selective in film production. Accordingly, turnover for film exhibition has decreased as a result of the reduction in number of film production irrespective of the increase in turnover for film rights sub-licensing of 18.2% during the year.

Although the films produced during the year dropped, the Group's selective policy of making good quality movie is well received by the industry and the audience and the films "Lover in Cyber Space", "Bullets over Summer" and "Victim" have won several awards in Hong Kong and overseas during the year.

## PROSPECTS

The Group has long been a mainstay of the home entertainment industry, looked to by millions of Chinese for the films and tele-features we produce and distribute. We have been extraordinarily successful in our ventures, and can boast a film library of popular titles that is the most prolific of any in Hong Kong.

Today's business environment, however, is very different from the one in which we first began operating in 1984. New media, such as optical disc and the Internet, are challenging companies such as ours to look beyond traditional ways of doing business.

The successful transformation of the Group and the extension of business segment to the provision of network technology supportive services and technological consultancy together with our strategic investments in several technology companies lay the foundation of diversified sources of income for the Group in addition to the core activities of film and program distribution.

With the recent improvement in sentiment of consumer spending and the encouraging growth in turnover for optical disc sales this year, the Group is optimistic about the results in the coming year.

### **Film and Program Distribution in DVD Format**

We see the recent affordable price of DVD players and expect there will be a geometrical growth in the demand for audio visual products in DVD format in the coming year. In this regard, the Group will continue to deliver the superb quality of sound and picture enabled by DVD in our DVD products for the market.

### **Application Service Provider ("ASP")**

We enter a new millennium and this bold new era of information technology ("IT"), the Group is committed not only to creating additional opportunities for our growth but also to enriching the lives of people locally and worldwide. We will continue to deliver our network technology supportive services as well as technological consultancy to our esteemed customers to achieve a mutual growth in this IT highway.

### **Film Production and Film Library**

With the recognition from the industry for the film awards that we won in last two years, the Group has successfully built our Icons of film production in the name "BIG", "Cameron" and "Mei Ah Film Production". Our film library is one of the largest collection of all major genres, including drama, romance, action, comedy, music, adventure, war, science fiction, Chinese historical dramas, cartoons and TV series.

Demand for films from our film library has increased recently as a result of the government's granting of broadcasting licenses in July 2000 and application of broadband transmission technology. These opening of new media channels will create substantial market potential for the demand of our film library in the coming year in addition to the existing film right sub-licensing income from local and overseas free TV and subscription TV operators.

# CHAIRMAN'S STATEMENT

## **Our Vision**

With broadband transmission technology, Internet and multimedia channels opening up exciting new possibilities for the future in entertainment, electronic storage, infotainment and e-commerce, the Group is moving ahead with a strategy to take advantage of these opportunities.

Mei Ah is redefining what it means to be an infotainment company in the 21st century by expanding on its strengths and experiences in ASP, production and film distribution.

Our plan of utilizing the Group's existing resource - the film library will offer excellent synergy and a new source of revenue for the Group.

On completion of the superstructure of the Group's new factory and headquarter in Tseung Kwan O in the last quarter of Year 2000, it will mark the Group's milestone in this millennium century.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group has banking facilities amounting to HK\$61,790,000 of which 64.3% had been utilized as at 31st March 2000 to finance its normal trading operations.

The Company raised net proceeds from a rights issue of 71,413,800 rights shares of HK\$0.10 each at HK\$0.80 each as per prospectus of the Company dated 28th July 1999 for approximately HK\$55.4 million and in October 1999, the Company further raised net proceed of approximately HK\$83.3 million by way of a vendor placing and top up subscription. The net proceeds were used for meeting the Group's capital requirement in investing a 45% equity interest in an associated company, and for enhancing the Group's film library and for other general working capital purposes. Such amount was applied in line with the proposed applications during the year under review.

## **EMPLOYEES**

As at 31st March 2000, the Group employed 88 staff. Remuneration is reviewed annually and certain staffs are entitled to commission. In addition to the basic salaries, staff benefits include discretionary bonus, medical insurance scheme and contributory provident fund.

## **APPRECIATION**

Finally, I would like to thank my fellow directors, management team and members of staff for their dedicated service and contribution.

**Li Kuo Hsing**

*Chairman*

Hong Kong, 28 August 2000



# REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts for the year ended 31st March 2000.

## 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 27 to the accounts.

An analysis of the group's turnover and contribution to operating profit for the year by principal activities is as follows:

	<b>Turnover</b> <i>HK\$'000</i>	<b>Operating profit/(loss)</b> <i>HK\$'000</i>
Film and program distribution in audio visual product formats	144,739	33,037
Film exhibition and film rights sub-licensing	42,997	(4,073)
Provision of information technology and related services, website design and management services	3,273	1,173
Others	1,484	976
	<u>192,493</u>	<u>31,113</u>

No geographical analysis is provided as less than 10% of the consolidated turnover and of the consolidated trading results of the group are attributable to markets outside Hong Kong.

## Results and appropriations

The results 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.

## Bonus issue

The directors decided to recommend to the shareholders at the Annual General Meeting to be held on 28th September 2000 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 and/or the contributed surplus account of the company. The bonus share will, when issued, rank pari passu in all respects with the existing issued shares of the company.

# REPORT OF THE DIRECTORS

## **Bonus issue** *(Cont'd)*

Subject to approval by the shareholders at the Annual General Meeting and conditional upon The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting listing of and permission to deal in the bonus shares, the shares will be issued to the shareholders whose names appear on the register of members on 28th September 2000. Share certificates for the bonus shares are expected to be posted to shareholders on or before 16th October 2000. Application will also be made to the Bermuda Monetary Authority for approval for the allotment and issue of the bonus shares. Dealings in the bonus shares are expected to commence on the Stock Exchange on 18th October 2000.

Other than on the Stock Exchange, there is no other stock exchange on which any of the shares in issue of the company are listed or dealt in or on which listing permission to deal is being sought.

## **Reserves**

Movements in the reserves of the group and the company during the year are set out in note 19 to the accounts.

## **Donations**

Charitable and other donations made by the group during the year amounted to HK\$61,000.

## **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 56.

## **Share capital**

Details of the movements in share capital and share options of the company are set out in notes 17 and 18 to the accounts.

## **Subsidiaries, associated companies and jointly controlled entity**

Details of the principal subsidiaries, associated companies and a jointly controlled entity are set out in note 27, 28 and 12 to the accounts respectively.

# REPORT OF THE DIRECTORS

## 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 55.

## Particulars of bank loans, overdrafts and other borrowings

The group's bank loans, overdrafts and other borrowings as at 31st March 2000 are repayable over the following periods:

	<b>Bills payable</b> <i>HK\$'000</i>	<b>Bank loans and overdrafts</b> <i>HK\$'000</i>	<b>Obligations under finance leases</b> <i>HK\$'000</i>
On demand or not exceeding one year	6,210	21,325	16
More than one year but not exceeding two years	—	5,706	16
More than two years but not exceeding five years	—	3,570	45
Exceeding five years	—	2,849	—
	<u>6,210</u>	<u>33,450</u>	<u>77</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:

	<b>2000</b>	<b>1999</b>
<b>Purchases</b>		
— the largest supplier	<b>56%</b>	44%
— five largest suppliers combined	<b>72%</b>	65%
<b>Sales</b>		
— the largest customer	<b>13%</b>	28%
— five largest customers combined	<b>27%</b>	60%

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.

# REPORT OF THE DIRECTORS

## Purchase, sale or redemption of shares

The company has not redeemed any of its shares during the year. Neither the company nor any of its subsidiaries has purchased or sold any of the company's shares 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 CHAU Kei Leung and Mr CHEUNG Kung Tai retire and, being eligible, offer themselves for re-election.

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

On 6th August 1999, Mr CHAN Ngan Piu changed from the position of executive director to non-executive director.

## Biography of directors and senior management

### Executive directors

Mr LI Kuo Hsing, aged 41, is the founder and chairman of the group. He has over 17 years of experience in the home video industry and 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.

# REPORT OF THE DIRECTORS

## Biography of directors and senior management *(Cont'd)*

### Executive directors *(Cont'd)*

Mr TONG Hing Chi, aged 45, 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 13 years of experience in the home video entertainment industry in Hong Kong and overseas. Mr. Tong is a director of Motion Picture Industry Association Limited (MPIA) since 1997 and director of the Federation of Motion Film Producers of Hong Kong Limited since 1998.

Mr CHAU Kei Leung, aged 36, 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 13 years of experience in the home video entertainment industry. He is a director of Movie Producers and Distribution Association of Hong Kong Limited since 1997.

### Non-executive directors

Mr CHAN Ngan Piu, aged 65, joined the group in 1988 and has over 31 years of experience in the manufacturing sector in Hong Kong and mainland China.

### Independent non-executive directors

Mr LEE Man Kwong, aged 46, has been practising as a solicitor in Hong Kong for over 16 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 58, 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 49, 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 24 years of experience in the film industry.

Mr HO Po Nin, Benny, aged 40, 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 12 years of experience in the home video entertainment industry.

# REPORT OF THE DIRECTORS

## Biography of directors and senior management *(Cont'd)*

### Senior management *(Cont'd)*

Mr LAM King Pui, Ken, aged 34 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 8 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 51, 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 22 years of experience in the film and audio video business in Hong Kong and mainland China.

Mr LAW Kwok Leung, Steve, aged 40, is the division head of the group's Infotainment Technology Division and supervises several projects. He holds a Bachelor of Science degree in Mathematics with Operational Research and a Master degree in Business Administration. He also holds the Diploma of Marketing awarded by the Chartered Institute of Marketing and being a full member of it. He is a fellow member of the Institute of Analysts and Programmers, full member of the Institute of Management and the Hong Kong Institute of Marketing. He has 16 years of experience in the advanced technology industry. He joined the group in 1997.

Mr MA Wai Ho, Joe, aged 36, 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 15 years of film production and creative experiences. Over the past 10 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 terminable 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.

# REPORT OF THE DIRECTORS

## Directors' interests in equity or debt securities

As at 31st March 2000, 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	3,088,500	12,656,250 <i>Note (a)</i>	110,741,170 <i>Note (b)</i>
Mr TONG Hing Chi	1,125,000	—	—
Mr CHAN Ngan Piu	675,000	—	—
Mr CHAU Kei Leung	2,043,000	—	—

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.

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 and its associated corporations (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.

# REPORT OF THE DIRECTORS

## Directors' interests in equity or debt securities (Cont'd)

### (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 Share Options to the following directors to acquire shares of HK\$0.1 each in the company at an exercise price of HK\$3.38 per share:

Name of Director	Number of Share Options granted
Mr LI Kuo Hsing	5,000,000
Mr TONG Hing Chi	4,500,000
Mr CHAU Kei Leung	4,500,000

The Share Options are exercisable from 19th August 2000 to 18th August 2002.

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 2000 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 2000, the reserves of the company available for distribution amounted to approximately HK\$169,728,000 (1999: HK\$169,749,000). 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.



# REPORT OF THE DIRECTORS

## 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 2000 except that the audit committee was not established for the whole of the year ended 31st March 2000 and non-executive directors are not appointed for a specific term as recommended under Appendix 14 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited ("Listing Rules"). They are subject to retirement by rotation and re-election at the annual general meeting in accordance with the company's Bye-laws. In the opinion of the directors this meets the same objective as the Code of Best Practice.

## 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.

## Year 2000 compliance

Details of the group's assessment of the Year 2000 problem, structure and progress of the compliance project have been disclosed in the interim report dated 28th December 1999. The group became Year 2000 compliant in June 1998. The total costs of the Year 2000 projects amounted to HK\$70,000. The group has no further commitments in respect of the Year 2000 project.

To date, the group has not experienced any Year 2000 non-compliance issues. However, the group is mindful that the Year 2000 problem may still persist into the year, therefore, there is still a possibility that a disruption to operations may result. In addition, there is no assurance that equipment or services used by third parties on which the group does or will rely, will be Year 2000 compliant throughout the Year 2000. The failure of the systems or equipment or services used by third parties and on which the group relies, could have a material impact on its business.

# REPORT OF THE DIRECTORS

## Post balance sheet events

Details of the significant post balance sheet date events are set out in note 26 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, 28th August 2000

# REPORT OF THE AUDITORS



羅兵咸永道會計師事務所

PricewaterhouseCoopers  
22/F Prince's Building Central  
Hong Kong

## **AUDITORS' REPORT TO THE SHAREHOLDERS OF MEI AH ENTERTAINMENT GROUP LIMITED** *(incorporated in Bermuda with limited liability)*

We have audited the accounts on pages 23 to 54 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### **Respective responsibilities of directors and auditors**

The company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

### **Basis of opinion**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the accounts and of whether the accounting policies are appropriate to the company's and the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

### **Opinion**

In our opinion the accounts give a true and fair view of the state of affairs of the company and the group as at 31st March 2000 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 28th August 2000

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st March 2000

	Note	2000 HK\$'000	1999 HK\$'000
Turnover	2	192,493	144,532
Cost of sales		<u>(132,222)</u>	<u>(153,099)</u>
Gross profit/(loss)		60,271	(8,567)
Other revenues	2	15,120	6,940
Selling and marketing expenses		(14,513)	(19,153)
Administrative expenses		(22,054)	(21,298)
Other expenses		<u>(7,711)</u>	<u>(8,341)</u>
Operating profit/(loss)	3	31,113	(50,419)
Finance costs	4	(3,507)	(3,056)
Share of loss of a jointly controlled entity		(2,364)	(5,219)
Share of losses less profits of associated companies		<u>(7,147)</u>	<u>1,020</u>
Profit/(loss) before taxation		18,095	(57,674)
Taxation	5	<u>—</u>	<u>384</u>
Profit/(loss) attributable to shareholders	6	<u>18,095</u>	<u>(57,290)</u>
Earnings/(loss) per share — basic	7	<u>HK\$0.08</u>	<u>(HK\$0.35)</u>

# CONSOLIDATED BALANCE SHEET

As at 31st March 2000

	Note	2000 HK\$'000	1999 HK\$'000
Fixed assets	10	143,668	99,606
Interest in a jointly controlled entity	12	4,415	8,414
Associated companies	13	52,047	20,795
Investment securities	14	10,110	8,046
Film rights and films in progress		57,789	55,831
Pledged bank deposits	24	14,000	14,000
Deposit for acquisition of additional interest in an associated company		8,000	—
Current assets			
Inventories	15	16,470	15,052
Film sub-licensing rights and deposits	16	64,078	46,652
Accounts receivable		17,394	17,078
Prepayments, deposits and other receivables		16,951	5,880
Dividend receivable		250	500
Tax recoverable		410	1,411
Bank balances and cash		39,389	2,157
		154,942	88,730
Current liabilities			
Accounts payable, receipts in advance and accruals		27,089	27,022
Bills payable	24	6,210	17,481
Bank loans — secured	20(a)	12,426	8,028
Obligations under finance leases	20(b)	16	1,349
Bank overdrafts			
— secured	24	8,683	8,629
— unsecured		216	235
		54,640	62,744
Net current assets		100,302	25,986
		390,331	232,678
Financed by:			
Share capital	17	25,704	14,283
Reserves	19	352,441	213,931
Shareholders' funds		378,145	228,214
Long-term liabilities	20	12,186	4,464
		390,331	232,678

Li Kuo Hsing  
Director

Tong Hing Chi  
Director

# BALANCE SHEET

As at 31st March 2000

	Note	2000 HK\$'000	1999 HK\$'000
Subsidiaries	11	429,233	326,881
Associated companies	13	40,519	3,723
Current assets			
Other receivables		327	74
Bank balances and cash		17	1
		344	75
Current liabilities			
Accounts payable and accruals		361	313
Net current liabilities		(17)	(238)
		<u>469,735</u>	<u>330,366</u>
Financed by:			
Share capital	17	25,704	14,283
Reserves	19	444,031	316,083
		<u>469,735</u>	<u>330,366</u>

**Li Kuo Hsing**  
Director

**Tong Hing Chi**  
Director

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March 2000

	Note	2000 HK\$'000	1999 HK\$'000
Net cash inflow from operating activities	21(a)	21,693	6,421
Returns on investments and servicing of finance			
Dividends received		750	—
Interest received		6,209	5,413
Interest paid		(3,502)	(2,806)
Interest element of finance lease payments		(5)	(250)
Net cash inflow from returns on investments and servicing of finance		3,452	2,357
Taxation			
Hong Kong profits tax refunded/(paid)		1,001	(39)
Investing activities			
Purchase of fixed assets		(53,698)	(31,595)
Purchase of investment securities		(1,943)	(4,950)
Additions to films rights and films in progress		(28,948)	(45,437)
Purchase of an associated company		(35)	—
Purchase of additional equity interest in an associated company		(12,000)	—
Deposit for acquisition of additional interest in an associated company		(8,000)	—
Proceeds from liquidation of an associated company		12	—
Bank deposits pledged		—	(14,000)
Increase in advances to associated companies		(36,028)	(7,562)
Repayment from/(advance to) a jointly controlled entity		1,635	(2,944)
Advances to investee companies		(121)	(1,900)
Net cash outflow from investing activities		(139,126)	(108,388)
Net cash outflow before financing		(112,980)	(99,649)
Financing	21(b)		
Issue of shares — net proceeds		139,390	—
Expenses incurred in connection with the reduction of share capital		—	(265)
Bank loans raised/(repayment of bank loans)		12,189	(3,333)
Repayment of capital element of finance leases		(1,322)	(1,450)
Net cash inflow/(outflow) from financing		150,257	(5,048)
Increase/(decrease) in cash and cash equivalents		37,277	(104,697)
Cash and cash equivalents at 1st April		(13,507)	91,190
Cash and cash equivalents 31st March		<u>23,770</u>	<u>(13,507)</u>
Analysis of cash and cash equivalents			
Cash and bank balances		39,389	2,157
Bank overdrafts		(8,899)	(8,864)
Bank loans		(6,720)	(6,800)
		<u>23,770</u>	<u>(13,507)</u>

# CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

For the year ended 31st March 2000

	<i>Note</i>	<b>2000</b> <b>HK\$'000</b>	1999 <i>HK\$'000</i>
Revaluation deficit on investment properties	19	<b>(958)</b>	(5,600)
Revaluation surplus on other properties	19	<b>3,329</b>	—
Exchange differences arising on translation of the accounts of the PRC jointly-controlled entity and an overseas associated company		<u>—</u>	<u>1</u>
Net gains/(losses) not recognised in the profit and loss account		<b>2,371</b>	(5,599)
Profit/(loss) for the year		<u><b>18,095</b></u>	<u>(57,290)</u>
Total recognised gains and losses		<b>20,466</b>	(62,889)
Goodwill eliminated directly against reserve	19	<u><b>(9,925)</b></u>	<u>—</u>
		<u><b>10,541</b></u>	<u>(62,889)</u>



## 1 Principal accounting policies

The principal accounting policies adopted in the preparation of these consolidated accounts are set out below:

### (a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. The accounts are prepared under the historical cost convention as modified by the revaluation of investment properties and leasehold land and buildings.

As a result of the adoption of the revised Statements of Standard Accounting Practice ("HKSSAP") No.1 and No.2 issued by the Hong Kong Society of Accountants which became effective this year, certain comparative figures have been reclassified or extended accordingly.

### (b) Basis of consolidation

The consolidated accounts include the accounts of the company and its subsidiaries made up to 31st March. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the group's share of its net assets together with any goodwill or capital reserve which was not previously charged to or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the company's balance sheet, the investments in subsidiaries are stated at cost less provision, if necessary, for any permanent diminution in value. The results of subsidiaries are accounted for by the company on the basis of dividends received and receivable.

### (c) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the group's share of the results of associated companies for the year, and the consolidated balance sheet includes the group's share of the net assets of the associated companies.

## 1 Principal accounting policies (Cont'd)

### (d) Joint ventures

A joint venture is a contractual arrangement whereby the group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated profit and loss account includes the group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the group's share of the net assets of the jointly controlled entities.

### (e) Goodwill

Goodwill, which represents the excess of purchase consideration over the fair values ascribed to the separable net assets of subsidiaries, associated companies and jointly controlled entities acquired, is taken to reserves in the year of acquisition.

### (f) Investment securities

Investment securities are stated at cost less any provision for diminution in value.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amounts of such securities are reduced to their fair values. The amount of the reduction is recognised as an expense in the profit and loss account.

### (g) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed, and are held for their long-term investment potential, any rental income being negotiated at arm's length. Investment properties are stated at annual professional valuation at the balance sheet date. Changes in the value of investment properties are dealt with as movements in the investment properties revaluation reserve. If the total of this reserve is insufficient to cover a deficit on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. Investment properties are not depreciated except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the carrying value over the remaining term of the lease.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

## 1 Principal accounting policies (Cont'd)

### (h) Properties under development

Properties under development are investments in land and buildings under construction. The investments are carried at cost which includes development and construction expenditure incurred and interest and other direct costs attributable to the development. On completion, the properties will be transferred to leasehold land and buildings.

No depreciation is provided on properties under development.

### (i) Property, plant and equipment

Leasehold land and buildings are stated at valuation at the balance sheet date.

It is a group policy to review regularly the fair value of fixed assets on an individual basis. If it is considered appropriate, independent professional valuations are obtained. Increases in valuation are credited to the other properties revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited. Upon the disposal of a property, the relevant portion of the realised revaluation reserve in respect of previous valuations is transferred from the revaluation reserve to retained profits and is shown as a movement in reserves.

Other tangible fixed assets are stated at cost less accumulated depreciation.

Leasehold land is depreciated over the period of the lease while other tangible fixed assets are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	2%
Leasehold improvements	10%
Furniture, fixtures and equipment	20% to 25%
Plant and machinery	20% to 25%
Motor vehicles	25%

Major costs incurred in restoring fixed assets to their normal working conditions are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the group.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained profits and is shown as a movement in reserves.

## 1 Principal accounting policies (Cont'd)

### (j) Assets under leases

#### (i) Finance leases

Leases that substantially transfer to the group all the rewards and risks of ownership of assets, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the fair value of the asset is recorded together with the obligation, excluding the interest element, to pay future rentals.

Payments to the lessor are treated as consisting of capital and interest elements. Finance charges are debited to the profit and loss account in proportion to the capital balances outstanding.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or lease periods.

#### (ii) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

### (k) Film and sub-licensing rights

#### (i) Film rights

Film rights generated by the group or perpetual rights acquired by the group are stated at cost less provision and amortisation. Costs less provision represents the carrying value transferred from films in progress upon completion or the purchase price of the perpetual film rights, and are amortised at rates calculated to write off the costs in proportion to the expected revenues from exhibition, the reproduction and distribution of audio-visual products, the licensing of video rights and other broadcast rights following their release. Such rates are subject to annual review by the directors.

#### (ii) Films in progress

Films in progress are stated at cost less provision. Costs includes all direct costs associated with the production of films. Provisions are made for costs which are in excess of the expected future revenue generated by these films. The balance of film production costs payable at year end are disclosed as commitments. Cost of films are transferred to film rights upon completion.

## 1 Principal accounting policies (Cont'd)

### (k) Film and sub-licensing rights (Cont'd)

#### (iii) Film sub-licensing rights and deposits

Licence fees paid in advance and by instalments during the production of films under licensing agreements for the reproduction and distribution of audio-visual products and sub-licensing of film titles, in specified geographical areas and time periods, are accounted for as film sub-licensing rights and deposits. The balance payable under the licensing agreements is disclosed as a commitment. Upon the release of the pre-recorded audio visual products and the materials, the relevant portion of licence fees of purchased film titles are charged to the profit and loss account on a systematic basis, with reference to the projected revenue and the underlying licence periods. Provision is made against film sub-licensing rights and deposits to the extent that they are not expected to generate any future revenue for the group.

In the case where the group is unable to exercise its rights under a licensing agreement because the film producer fails to complete the film, the group writes off the difference between the advances made and the estimated recoverable amount from the film producer.

### (l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises materials, direct labour and an appropriate proportion of all production expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

### (m) Accounts receivable

Provision is made against accounts receivable to the extent which they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

### (n) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

### (o) Retirement benefit costs

The group's contributions to the defined contribution retirement scheme are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the scheme are held separately from those of the group in an independently administered fund.

## 1 Principal accounting policies (Cont'd)

### (p) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. All exchange differences are dealt with in the profit and loss account.

The accounts of associated companies and a jointly controlled entity expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves.

### (q) Revenue recognition

- (i) Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.
- (ii) Income from the licensing and sub-licensing of audio visual products, video features and TV rights is recognised upon delivery of the pre-recorded audio visual products and the materials for video features including the master tapes to the customers.
- (iii) Share of film exhibition income is recognised when the right to receive payment is established.
- (iv) Information technology and related service fee income is recognised when the relevant services are rendered.
- (v) Income from the retail renting of video tapes and laser discs is recognised in accordance with the utilisation rate of coupons by the customers.
- (vi) Rental income is recognised on an accruals basis.
- (vii) Dividend income is recognised when the right to receive payment is established.
- (viii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

## NOTES TO THE ACCOUNTS

### 2 Revenues and turnover

The group is principally engaged in the production and distributions of films and programs, film exhibition, film rights sub-licensing and provision of information technology and related services. Revenues recognised during the year are as follows:

	<b>2000</b> <b>HK\$'000</b>	1999 HK\$'000
Turnover		
Distribution of films and programs in audio visual product formats	<b>144,739</b>	84,042
Film exhibition and film rights sub-licensing	<b>42,997</b>	56,153
Provision of information technology and related services	<b>3,273</b>	232
Retail renting and sales of video and multi-media products	—	1,640
Others	<b>1,484</b>	2,465
	<b>192,493</b>	144,532
Other revenues		
Rental income from investment properties	<b>968</b>	920
Rental income from land and buildings and sub-letting of properties and plant and machinery	<b>7,443</b>	107
Interest income	<b>6,209</b>	5,413
Dividend income from unlisted investments	<b>500</b>	500
	<b>15,120</b>	6,940
<b>Total revenues</b>	<b><u>207,613</u></b>	<b><u>151,472</u></b>

3 Operating profit/(loss)

	2000 HK\$'000	1999 HK\$'000
<b>(a) The operating profit/(loss) is stated after charging the following:</b>		
Depreciation:		
— owned fixed assets	8,434	4,402
— leased fixed assets	1,224	1,336
Auditors' remuneration	720	800
Operating lease charges in respect of land and buildings	2,548	2,950
Outgoing in respect of investment properties	21	10
Amortisation of film rights	26,990	56,726
Provision for irrecoverable accounts receivable, films and other deposits	5,500	5,881
Deficit arising on revaluation of land and buildings not covered by previous revaluation surplus	2,349	4,524
Staff costs	<u>18,251</u>	<u>17,867</u>

**(b) Discontinued operations**

In March 1998, in view of the persisting economic recession and the flood of pirated VCD's, and further hit by the weakening of general consumption of the general public in Hong Kong and the increasing unemployment rate, the directors decided to terminate the group's video products renting and retailing business in Hong Kong during the year ended 31st March 1999. The effective date of discontinuance was 24th June 1998, upon the closure of the last video renting outlet. The contribution to turnover and the operating profit in respect of the discontinued operation, accounted for up to the date of discontinuance, were as follows:

	2000 HK\$'000	1999 HK\$'000
Turnover	<u>—</u>	<u>1,640</u>
Operating profit	<u>—</u>	<u>1,267</u>



## 4 Finance costs

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Interest on bank loans and overdrafts	3,502	2,806
Interest element of finance leases	<u>5</u>	<u>250</u>
	<u><u>3,507</u></u>	<u><u>3,056</u></u>

## 5 Taxation

No provision for Hong Kong and overseas profits tax has been made for as there are sufficient tax losses brought forward to set off against the assessable profit for the year. Last year's amount represented over provision for Hong Kong profits tax in prior years.

The group's jointly controlled entity in mainland China did not have any assessable income for the year for mainland China tax purposes and accordingly no provision for mainland China taxation has been made in the accounts.

No provision for net potential deferred tax assets amounting to HK\$13,566,000 (1999: HK\$20,428,000) has been made in the accounts as it is uncertain that such assets will crystallise in the foreseeable future. At 31st March 2000, the group had potential deferred tax assets in respect of tax losses amounting to HK\$16,056,000 (1999: HK\$21,281,000) and deferred tax liabilities in respect of accelerated depreciation allowances amounting to HK\$2,490,000 (1999: HK\$853,000).

## 6 Profit/(loss) attributable to shareholders

The profit/(loss) attributable to shareholders is dealt with in the accounts of the company to the extent of a loss of HK\$21,000 (1999: HK\$1,913,000).

## 7 Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the group's profit attributable to shareholders of HK\$18,095,000 (1999: loss of HK\$57,290,000) and the weighted average number of 226,566,548 (1999: 164,861,077) shares in issue taking into account the effect of the rights issue on 18th August 1999. The loss per share for 1999 has been adjusted accordingly.

The outstanding share options granted during the year have not been included in the calculation of the diluted earnings per share as the exercise of these share options would have an anti-dilutive effect.

**8 Directors' and senior management's emoluments**

- (a) The aggregate amounts of emoluments payable to directors of the company during the year are as follows:

	<b>2000</b> <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Fees	<b>130</b>	130
Other emoluments — basic salaries, allowances and other benefits in kind	<b>3,943</b>	3,943
Discretionary bonuses	<b>—</b>	—
Pension contribution	<b>191</b>	191
	<b><u>4,264</u></b>	<b><u>4,264</u></b>

Directors' fees include HK\$130,000 (1999: HK\$130,000) paid to independent non-executive directors.

During the year the company also granted, under the share option scheme (the "Share Option Scheme") approved by the shareholders of the company on 24th September 1993, options (the "Share Options") to all executive directors to acquire in aggregate 14,000,000 shares in the company at an exercise price of HK\$3.38 per share. The Share Options are exercisable at any time during the period from 19th August 2000 to 18th August 2002.

The emoluments of the directors fell within the following bands:

	<b>Number of directors</b>	
	<b>2000</b>	1999
HK\$ Nil — HK\$1,000,000	<b>4</b>	5
HK\$1,000,001 — HK\$1,500,000	<b>1</b>	1
HK\$2,000,001 — HK\$2,500,000	<b>1</b>	1
	<b><u>6</u></b>	<b><u>7</u></b>

No directors have waived any of their emoluments in respect of the years ended 31st March 2000 and 1999.

## 8 Directors' and senior management's emoluments (Cont'd)

- (b) The five individuals whose emoluments were the highest in the group for the year include two (1999: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (1999: two) individuals during the year are as follows:

	<b>2000</b> <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Basic salaries, allowances and other benefits in kind	<b>2,251</b>	1,522
Pension contributions	<b>82</b>	39
	<b><u>2,333</u></b>	<u>1,561</u>

The emoluments fell within the following bands:

	<b>Number of individuals</b>	
	<b>2000</b>	1999
HK\$ Nil — HK\$1,000,000	<b><u>3</u></b>	<u>2</u>

## 9 Retirement benefit costs

The group contributes to a defined contribution retirement scheme which provides retirement benefits to its employees. The scheme's assets are held under a provident fund managed by an independent administrator. Under the scheme, both the employer and employees are required to contribute 5% of the basic salaries on a monthly basis. The employees are entitled to 100% of the employer's contribution and accrued interest after 10 years of completed service, or at a reduced scale of between 20% to 90% after completion of 2 to 9 years' service. The forfeited contributions and the related accrued interest are to be used to reduce the employer's contribution.

The aggregate employer's contribution, net of forfeited contributions and their accrued interest, which have been dealt with in the consolidated profit and loss account for the relevant years amounted to:

	<b>2000</b> <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Gross employer's contributions	<b>678</b>	686
Less: Forfeited contribution and their accrued interest utilised to offset employer's contribution for the year	<b>(189)</b>	(196)
Net employer's contributions charged to profit and loss Account	<b><u>489</u></b>	<u>490</u>

As at 31st March 2000, forfeited contributions available to the group to reduce its contributions to the pension scheme in future years were not material.

## 10 Fixed assets

	Group							
	Investment	Properties	Leasehold	Leasehold	Furniture,	Plant and	Motor	Total
	properties	under	land and	Improvements	and	machinery	vehicles	
HK\$'000	development	buildings	HK\$'000	equipment	HK\$'000	HK\$'000	HK\$'000	
Cost or valuation								
At 1st April 1999	15,700	17,889	31,180	4,593	3,908	49,538	3,152	125,960
Adjustment on revaluation	(958)	—	320	—	—	—	—	(638)
Additions, at cost	4,508	15,805	—	84	986	31,815	500	53,698
At 31st March 2000	<u>19,250</u>	<u>33,694</u>	<u>31,500</u>	<u>4,677</u>	<u>4,894</u>	<u>81,353</u>	<u>3,652</u>	<u>179,020</u>
At cost	—	33,694	—	4,677	4,894	81,353	3,652	128,270
At 2000 professional valuation	<u>19,250</u>	<u>—</u>	<u>31,500</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>50,750</u>
	<u>19,250</u>	<u>33,694</u>	<u>31,500</u>	<u>4,677</u>	<u>4,894</u>	<u>81,353</u>	<u>3,652</u>	<u>179,020</u>
Accumulated depreciation								
At 1st April 1999	—	—	—	1,877	2,470	19,142	2,865	26,354
Charge for the year	—	—	660	473	569	7,769	187	9,658
Adjustment on revaluation	—	—	(660)	—	—	—	—	(660)
At 31st March 2000	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,350</u>	<u>3,039</u>	<u>26,911</u>	<u>3,052</u>	<u>35,352</u>
Net book value								
As at 31st March 2000	<u>19,250</u>	<u>33,694</u>	<u>31,500</u>	<u>2,327</u>	<u>1,855</u>	<u>54,442</u>	<u>600</u>	<u>143,668</u>
As at 31st March 1999	<u>15,700</u>	<u>17,889</u>	<u>31,180</u>	<u>2,716</u>	<u>1,438</u>	<u>30,396</u>	<u>287</u>	<u>99,606</u>

## 10 Fixed assets (Cont'd)

- (a) Except for certain leasehold land and buildings situated in mainland China amounting to HK\$15,000,000 which is held under long lease, all investment properties, properties under development and leasehold land and buildings are situated in Hong Kong and held under medium-term leases.
- (b) At 31st March 2000, certain properties and plant and machinery with net book values of HK\$32,167,000 (1999: HK\$30,700,000) and HK\$19,252,000 (1999: Nil) respectively, were pledged as security for banking facilities granted to the group (note 24).
- (c) All investment properties and leasehold land and buildings were revalued by Memfus Wong Surveyors Limited, an independent professional valuer in Hong Kong, on an open market value basis as at 31st March 2000.
- (d) The carrying amount of leasehold land and buildings would have been HK\$40,035,000 (1999: HK\$40,909,000) had they been stated at cost less accumulated depreciation.
- (e) At 31st March 2000, the net book value of assets held by the group under finance leases amounted to HK\$76,000 (1999: HK\$2,471,000).
- (f) The revaluation of investment properties and certain leasehold land and buildings of the group does not constitute a timing differences for taxation purposes because management of the group intends to operate these properties on a long-term basis.

## 11 Subsidiaries

	Company	
	2000	1999
	HK\$'000	HK\$'000
Unlisted shares, at cost (note (a))	46,010	46,010
Amounts due from subsidiaries (note (b))	418,990	316,592
Amounts due to subsidiaries (note (b))	(35,767)	(35,721)
	<u>429,233</u>	<u>326,881</u>

- (a) Details of subsidiaries are set out in note 27 to the accounts.
- (b) The amounts due from/(to) subsidiaries are unsecured, interest-free and not repayable within the next twelve months from the balance sheet date.

12 Interest in a jointly controlled entity

	Group	
	2000 HK\$'000	1999 HK\$'000
Share of net liabilities ( <i>note (a)</i> )	(11,741)	(9,377)
Amount due from a jointly controlled entity ( <i>note (b)</i> )	16,156	17,791
	<u>4,415</u>	<u>8,414</u>

- (a) This represents the group's 70% interest in Guang Dong Tung Ah Audio Video Production Company Limited. The group's control over the joint venture company is restricted by a provision in the joint venture agreement that requires unanimous approval by all directors present for certain major decisions, notwithstanding the group having a majority equity interest and the ability to appoint the majority of directors. Accordingly, in the opinion of the directors, the group does not have unilateral control over the joint venture company and the equity method is used to account for its investment therein.

Particulars of the jointly controlled entity are as follows:

Name	Place of registration/ operation	Principal activities	Attributable equity interest
Guang Dong Tung Ah Audio Video Production Company Limited	Mainland China	Processing and distribution of audio visual products	70%

The group's share of post-acquisition accumulated losses of the jointly controlled entity at 31st March 2000 was HK\$12,826,000 (1999: HK\$10,462,000).

- (b) The amount due from the jointly controlled entity is unsecured, interest-free and not repayable within the next twelve months from the balance sheet date.

# NOTES TO THE ACCOUNTS

## 13 Associated companies

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Share of net (liabilities)/assets (note (a))	(387)	4,389	—	—
Amounts due from/to associated companies (note (b))	<u>52,434</u>	<u>16,406</u>	<u>40,519</u>	<u>3,723</u>
	<u><b>52,047</b></u>	<u><b>20,795</b></u>	<u><b>40,519</b></u>	<u><b>3,723</b></u>

- (a) Details of associated companies are set out in note 28 to the accounts.
- (b) The amounts due from/to associated companies are unsecured, interest-free and not repayable within twelve months from the balance sheet date, except for an amount of HK\$62,326,000 due from associated companies which is interest-bearing at prevailing market rates.

Subsequent to 31st March 2000, an interest-free shareholder's loan amounting to HK\$4,500,000 advanced to China10K.com (BVI) Company Limited, an associated company, was capitalised and applied in paying up in full 576,900 shares of US\$1 each in that company.

- (c) The group's share of the post-acquisition accumulated losses of the associated companies at 31st March 2000 was HK\$6,380,000 (1999: retained profits of HK\$767,000).

## 14 Investment securities

	Group	
	2000 HK\$'000	1999 HK\$'000
Unlisted equity securities, at cost	9,589	7,646
Provision for diminution in value	<u>(1,500)</u>	<u>(1,500)</u>
Loans to investee companies (note (a))	<u>8,089</u>	<u>6,146</u>
	<u><b>2,021</b></u>	<u><b>1,900</b></u>
	<u><b>10,110</b></u>	<u><b>8,046</b></u>

- (a) The amounts due from investee companies are unsecured, interest-free and not repayable within the next twelve months from the balance sheet date, except for an amount of HK\$1,000,000 (1999: HK\$1,000,000) which is interest-bearing at prevailing market rates.

## 15 Inventories

	Group	
	2000 HK\$'000	1999 HK\$'000
Blank tapes, at cost	502	607
Films and programs in audio visual product formats, at cost	<u>15,968</u>	<u>14,445</u>
	<u><u>16,470</u></u>	<u><u>15,052</u></u>

## 16 Film sub-licensing rights and deposits-Group

As at 31st March 2000, film sub-licensing rights and deposits with an aggregate net book value of HK\$15,698,000 are not expected to be realised within the next twelve months from the balance sheet date.

## 17 Share capital

	Authorised Shares of HK\$0.1 each	
	No. of shares (Thousands)	HK\$'000
At 31st March 1999 and 31st March 2000	<u>3,000,000</u>	<u>300,000</u>
	Issued and fully paid Shares of HK\$0.1 each	
	No. of shares (Thousands)	HK\$'000
At 31st March 1999	142,828	14,283
Issue of shares (note (a))	<u>114,214</u>	<u>11,421</u>
At 31st March 2000	<u><u>257,042</u></u>	<u><u>25,704</u></u>



## 17 Share capital (Cont'd)

- (a) On 18th August 1999, 71,413,800 rights shares of HK\$0.1 each in the company were issued at a price of HK\$0.80 per rights share to the shareholders in the proportion of one rights share for every two existing shares then in issue.

Pursuant to a placing agreement dated 26th October 1999, Kuo Hsing Holdings Limited, a substantial shareholder of the company, placed 23,000,000 shares of HK\$0.1 each in the company its held to several independent third parties at a price (the "Placing Price") of HK\$2.00 per share. Immediately following that placing, Kuo Hsing Holdings Limited subscribed from the company for 42,800,000 new shares of HK\$0.1 each in the company at the Placing Price. The closing price per share of the company as at 26th October 1999 was HK\$2.35.

- (b) All the new shares issued during the year rank pari passu with the existing shares in all respects. The net proceeds raised in (a) above amounting to HK\$139,390,000 are used for meeting the group's capital requirement in acquiring a 45% equity interest in an associated company, and for enhancing the group's film library and for other general working capital purposes.

## 18 Share options

Pursuant to the Share Option Scheme of the company, on 28th January 2000, the company granted 20,000,000 Share Options to certain employees including executive directors of the company. The holders of the Share Options are entitled to subscribe for shares of HK\$0.1 each in the company at an exercise price of HK\$3.38 per share. The options are exercisable at any time during the period from 19th August 2000 to 18th August 2002. As at 31st March 2000, all the Share Options remained outstanding.

## 19 Reserves

	Group						
	Share Premium	Contributed surplus	Exchange difference	Investment properties revaluation reserve	Other properties Revaluation Reserve	Retained profits/ losses (accumulated)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April 1998	146,599	—	(307)	11,141	—	(8,893)	148,540
Reduction of share capital	(265)	128,545	—	—	—	—	128,280
Deficit on revaluation of investment properties	—	—	—	(5,600)	—	—	(5,600)
Exchange differences	—	—	1	—	—	—	1
Loss for the year	—	—	—	—	—	(57,290)	(57,290)
At 31st March 1999	146,334	128,545	(306)	5,541	—	(66,183)	213,931
At 1st April 1999	146,334	128,545	(306)	5,541	—	(66,183)	213,931
Share premium on issue of shares, net of issuing expenses	127,969	—	—	—	—	—	127,969
Surplus/(deficit) on revaluation of properties (note (a))	—	—	—	(958)	3,329	—	2,371
Goodwill on acquisition of additional equity interest in an associated company written off	—	(9,925)	—	—	—	—	(9,925)
Profit for the year	—	—	—	—	—	18,095	18,095
At 31st March 2000	<u>274,303</u>	<u>118,620</u>	<u>(306)</u>	<u>4,583</u>	<u>3,329</u>	<u>(48,088)</u>	<u>352,441</u>

  

	Company			
	Share premium	Contributed surplus	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April 1998	146,599	46,011	(2,894)	189,716
Reduction of share Capital	(265)	128,545	—	128,280
Loss for the year	—	—	(1,913)	(1,913)
At 31st March 1999	146,334	174,556	(4,807)	316,083
At 1st April 1999	146,334	174,556	(4,807)	316,083
Share premium on issue of shares, net of issuing expenses	127,969	—	—	127,969
Loss for the year	—	—	(21)	(21)
At 31st March 2000	<u>274,303</u>	<u>174,556</u>	<u>(4,828)</u>	<u>444,031</u>

# NOTES TO THE ACCOUNTS

## 19 Reserves (Cont'd)

- (a) These represents surplus/(deficit) arising on revaluation of properties at the balance sheet date. The accounting policies in respect of revaluation of properties are set out in note 1(g) and 1(i) to the accounts respectively.
- (b) The contributed surplus of the company represents the difference between the par value of the company's shares issued in exchange for the issued share capital of the subsidiaries and the net asset value of the subsidiaries acquired, and the credit arising from the reduction of share capital during the year ended 31st March 1999. Under the Companies Act 1981 of Bermuda (as amended) and the company's Bye-laws the contributed surplus is not distributable to shareholders except that immediately following the distributions or dividend payments, the company is able to pay its debts as they fall due in the ordinary course of business.

## 20 Long-term liabilities

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Bank loans — secured (note (a))	24,551	12,442
Obligations under finance leases (note (b))	77	1,399
	<u>24,628</u>	13,841
Current portion of long-term liabilities	<u>(12,442)</u>	<u>(9,377)</u>
	<u><u>12,186</u></u>	<u><u>4,464</u></u>

- (a) Secured bank loans are repayable in the following periods:

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Within one year	12,426	8,028
In the second year	5,706	1,228
In the third to fifth years inclusive	3,570	2,526
More than five years	2,849	660
	<u>12,125</u>	<u>4,414</u>
	<u><u>24,551</u></u>	<u><u>12,442</u></u>

**20 Long-term liabilities (Cont'd)**

(b) Obligations under finance leases are payable in the following periods:

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>16</b>	1,349
In the second year	<b>16</b>	23
In the third to fifth years inclusive	<b>45</b>	27
	<b>61</b>	50
	<b>77</b>	1,399

**21 Notes to the consolidated cash flow statement**

(a) Reconciliation of profit/(loss) before taxation to net cash inflow from operating activities

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Profit/(loss) before taxation	<b>18,095</b>	(57,674)
Share of loss of a jointly controlled entity	<b>2,364</b>	5,219
Share of losses less profits of associated companies	<b>7,147</b>	(1,020)
Interest income	<b>(6,209)</b>	(5,413)
Dividend income from unlisted investments	<b>(500)</b>	(500)
Interest on bank loans and overdrafts	<b>3,502</b>	2,806
Interest element on finance leases	<b>5</b>	250
Deficit arising on revaluation of leasehold land and buildings not covered by previous revaluation surplus	<b>2,349</b>	4,524
Depreciation of owned fixed assets	<b>8,434</b>	4,402
Depreciation of fixed assets held under finance leases	<b>1,224</b>	1,336
Amortisation of films rights	<b>26,990</b>	56,726
Loss on liquidation of an associated company	<b>18</b>	—
Increase in inventories	<b>(1,709)</b>	(1,174)
(Increase)/decrease in films sub-licensing rights and deposits	<b>(17,426)</b>	13,334
(Increase)/decrease in accounts receivable	<b>(316)</b>	274
(Increase)/decrease in prepayments, deposits and other receivables	<b>(11,071)</b>	10,272
Decrease in accounts and bills payable, receipts in advance and accruals	<b>(11,204)</b>	(26,941)
Net cash inflow from operating activities	<b>21,693</b>	6,421

# NOTES TO THE ACCOUNTS

## 21 Notes to the consolidated cash flow statement (Cont'd)

(b) Analysis of changes in financing during the year

	Share capital (including share premium)		Bank loans and finance lease obligations	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
At 1st April	160,617	289,427	7,041	11,824
Non-cash movement:				
Reduction of share capital	—	(128,545)	—	—
Issue of shares	142,730	—	—	—
Issuing expenses	(3,340)	(265)	—	—
Payment of capital element of finance leases	—	—	(1,322)	(1,450)
Bank loans raised/ (repayment of bank loans)	—	—	12,189	(3,333)
At 31st March	<u>300,007</u>	<u>160,617</u>	<u>17,908</u>	<u>7,041</u>

## 22 Commitments

(a) As at 31st March 2000, the group had commitments not provided for in these accounts as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
(i) Capital commitment in respect of properties under development	<u>58,800</u>	<u>78,902</u>
(ii) Commitment in respect of the acquisition of an additional interest in an associated company	<u>2,000</u>	<u>—</u>
(iii) Other commitments in respect of		
— film production	24,976	20,994
— film licensing agreements	31,401	37,815
	<u>56,377</u>	<u>58,809</u>

**22 Commitments** (Cont'd)

- (b) As at 31 March 2000, the group had commitments under operating leases to make payments in the next year in respect of land and buildings as follows:—

	<b>Group</b>	
	<b>2000</b> <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Operating leases which expire:—		
— within one year	<b>865</b>	486
— in the second to fifth years inclusive	<b>102</b>	161
	<u><b>967</b></u>	<u>647</u>

**23 Contingent liabilities**

- (a)

	<b>Group</b>		<b>Company</b>	
	<b>2000</b> <i>HK\$'000</i>	1999 <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Guarantees given to banks in respect of utilised banking facilities of:				
Subsidiaries	—	—	<b>36,419</b>	38,553
Associated companies	<b>6,971</b>	13,883	<b>6,971</b>	13,883
Guarantees given to third parties in respect of finance leases obtained by subsidiaries	—	—	—	1,324
	<u><b>6,971</b></u>	<u>13,883</u>	<u><b>43,390</b></u>	<u>53,760</u>

- (b) On 25th June 1999, Leung Kee Construction Company Limited (“Leung Kee”) issued a writ of summons against Mei Ah Investment Company Limited (“MAI”) in respect of an alleged breach of contract regarding certain piling and pile caps works in an industrial building at Tseung Kwan O. Having sought independent legal opinion, the directors are of the opinion that MAI will have a valid defence of the claim.

# NOTES TO THE ACCOUNTS

## 24 Pledge of assets — Group

Banking facilities amounting to HK\$61,790,000 (1999: HK\$56,507,000) granted by banks to the group are secured by the following:

- (i) legal charges over certain of the group's properties and plant and machinery (note 10);
- (ii) charges over bank balances of the group amounting to HK\$14,000,000 (1999: HK\$14,000,000); and
- (iii) corporate guarantees executed by the company.

## 25 Related party transactions

The group has the following material transactions with its related parties during the year:

		<b>Group</b>	
	<i>Note</i>	<b>2000</b> <b>HK\$'000</b>	1999 <i>HK\$'000</i>
Purchase of fixed assets from an associated company	(a)	<b>29,639</b>	—
Replication fee paid to associated companies	(b)	<b>83,785</b>	39,790
Interest income from associated companies	(c)	<b>2,802</b>	1,000
Origination fee received from an associated company	(d)	<b>307</b>	960
Rental income from associated companies	(e)	<b>7,429</b>	1,159
Website development and web hosting fees from an associated company	(f)	<b>2,800</b>	—
Sale of goods to an associated company	(g)	<b>1,850</b>	—
		<b><u>1,850</u></b>	<b><u>—</u></b>

- (a) This represents purchase of plant and machinery from an associated company at a consideration of HK\$29,639,000, representing the net book value of the plant and machinery as at that date.
- (b) Replication fee paid to the associated company were charged at prices and terms no less favourable to the group than those charged to other third party customers by that associated company. The transaction was conducted in the normal course of business of the group.
- (c) Interest received from associated companies was charged at prevailing market rates.
- (d) Origination fee received from an associated company were charged at prices and terms no less than those charged to other third party customers of the group.

**25 Related party transactions** *(Cont'd)*

- (e) Rental income from the sub-letting of factory premises and leasing of certain plant and machinery to certain associated companies was determined on a cost reimbursement basis.
- (f) Website development and web hosting fees received from an associated company were determined in accordance with the relevant service agreements.
- (g) Sale of audio visual products to an associated company, which were conducted in the normal course of business, were made at prices and terms no less than those charged to other third party customers of the group.

**26 Post balance sheet date events**

Subsequent to 31st March 2000, the group's equity interest in China10K.com (BVI) Company Limited ("China10K.com"), an associated company in which the group held 45% equity interest as at 31st March 2000, has changed as follows:

- (a) In May 2000, the loans advanced to China10K.com by its shareholders amounting to HK\$10,000,000 were capitalised and applied in paying up in full 1,282,000 shares of US\$1 each in that company. There was no change in percentage of equity interest held by the group upon the capitalisation of the shareholders' loans;
- (b) In June 2000, the group acquired additional 5% of the enlarged share capital (including the issue of new shares mentioned in note (c) below) in China10K.com at a consideration of HK\$10,000,000; and
- (c) In June and August 2000, a total of 323,000 shares of US\$1 each in China10K.com were issued to two independent investors for a total consideration of cash of approximately HK\$24,500,000 and 20,330,000 shares with nominal value of HK\$0.02 each of New World Cyberbase Limited, one of the independent investors of which shares are listed on the Hong Kong Stock Exchange. The group's gain on dilution of interest in the above associated company, after the capital contributions from the two independent investors, amounting to approximately HK\$14,049,000.



## 27 Group structure — subsidiaries

At 31st March 2000, the company held interests in the following principal subsidiaries:

Name	Place of incorporation/ operations	Issued/ registered capital	Percentage holding in the voting shares	Nature of business
<b>Shares held directly:</b>				
Mei Ah Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary US\$50,050	100	Investment holding
<b>Shares held indirectly:</b>				
Mei Ah Video Production Company Limited	Hong Kong	Ordinary HK\$2 Deferred HK\$10,000	100	Processing of audio visual products
Mei Ah Investment Company Limited	Hong Kong	Ordinary HK\$2 Deferred HK\$500,000	100	Investment holding
Mei Ah Film Production Company Limited	Hong Kong	Ordinary HK\$2	100	Production, sales and licensing of video movies
Mei Ah Laser Disc Company Limited	Hong Kong	Ordinary HK\$2 Deferred HK\$100,000	100	Distribution of audio visual products
Mei Ah (HK) Company Limited	Hong Kong	Ordinary HK\$10,000	100	Distribution of audio visual products
Mei Ah Development Company Limited	British Virgin Islands/ Hong Kong	Ordinary US\$50,000	100	Sub-licensing of film rights
Mei Ah Trading Company Limited	British Virgin Islands/ Hong Kong	Ordinary US\$50,000	100	Sub-licensing of film rights

## 27 Group structure — subsidiaries (Cont'd)

Name	Place of incorporation/ operations	Issued/ registered capital	Percentage holding in the voting shares	Nature of business
Mei Ah Entertainment Development Company Limited	Hong Kong	Ordinary HK\$2	100	Investment holding
Cameron Entertainment Company Limited	Hong Kong	Ordinary HK\$2	100	Distribution of audio visual products
Mei Ah Multi-Media Workshop Limited	Hong Kong	Ordinary HK\$10,000	65	Programming of audio visual products
Mei Ah Webcast International Corporation Limited	Hong Kong	Ordinary HK\$2	100	Provision of information technology services
Brilliant Idea Group Limited	Hong Kong	Ordinary HK\$10,000	70	Production, sales and licensing of films
Mei Ah (China) Company Limited	Hong Kong	Ordinary HK\$2	100	Investment holding
Mei Ah Edutainment Publishing Limited	Hong Kong	Ordinary HK\$2	100	Distribution of audio visual educational products

## 28 Group structure — associated companies

At 31st March 2000, the company held shares in the following principal associated companies:

Name	Place of establishment/ operations	Issued shares capital	Effective percentage holding	Nature of business
<b>Shares held indirectly:</b>				
Platinum Laser Disc Sdn. Bhd.	Malaysia	Rt100,000	40	Distribution of audio visual products
Cyberworks Audio Video Technology Limited (formerly known as Mei Ah Audio Video Technology Limited)	Hong Kong	HK\$10,000,000	45	Processing of audio visual products
Mei Ah Cyberworks Corporation Limited (formerly known as Asia Pacific Infotainment Services Limited)	British Virgin Islands	US\$100	45	Investment holding
Mei Ah Mastertech Company Limited	Hong Kong	HK\$2	45	Processing of audio visual products
China10K.com (BVI) Company Limited	British Virgin Islands	US\$10,000	45	Provision of internet content and e-commerce business

## 29 Approval of accounts

The accounts were approved by the board of directors on 28th August 2000.

# SUMMARY OF FINANCE INFORMATION

## Five Years Summary

The results, assets and liabilities of the group for the last five financial years are as follows:

	<b>2000</b> <i>HK\$'000</i>	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>	1997 <i>HK\$'000</i>	1996 <i>HK\$'000</i>
Turnover	<b><u>192,493</u></b>	<u>144,532</u>	<u>236,127</u>	<u>192,996</u>	<u>173,657</u>
Profit/(loss) attributable to shareholders	<b><u>18,095</u></b>	<u>(57,290)</u>	<u>(59,014)</u>	<u>17,190</u>	<u>3,885</u>
Fixed assets	<b>143,668</b>	99,606	72,862	82,189	87,032
Other assets	<b>146,361</b>	107,086	101,859	45,900	25,684
Net current assets	<b><u>100,302</u></b>	<u>25,986</u>	<u>123,735</u>	<u>48,559</u>	<u>33,073</u>
	<b>390,331</b>	232,678	298,456	176,648	145,789
Long-term liabilities	<b><u>(12,186)</u></b>	<u>(4,464)</u>	<u>(7,088)</u>	<u>(9,494)</u>	<u>(19,920)</u>
Net assets	<b><u>378,145</u></b>	<u>228,214</u>	<u>291,368</u>	<u>167,154</u>	<u>125,869</u>

# SCHEDULE OF PRINCIPAL PROPERTIES

31st March 2000

Description	Existing Use	Term of lease	Status	Percentage of Group interest
Factory Units Nos. 23 and 24 on 5th Floor and Car Parking Space No. V18 on Basement, Kowloon Bay Industrial Centre, No. 15 Wang Hoi Road, Kowloon Bay, Kowloon	Industrial	Medium	Self use	100%
House No. 28 and Car Park Nos. 59 and 60, The Villa Horizon, Silver Stream Path, Sai Kung, New Territories	Residential	Medium	Rental	100%
Flat A on 6th Floor Nikken Heights Prince's Terrace Hong Kong	Residential	Medium	Rental	100%
Shop No. 2 on Ground Floor, Po Sun Mansion, Nos. 87-101, Bulkeley Street, Hung Hom, Kowloon	Commercial	Medium	Rental	100%
Units No. 1-2 on 10th Floor, Metro Centre, Phase 1, Nos. 32 Lam Hing Street, Kowloon Bay, Kowloon	Industrial/ Commercial	Medium	Self use	100%
Units No. 5, 15-28 on 17th Floor, Metro Centre, Phase 1, Nos. 32 Lam Hing Street, Kowloon Bay, Kowloon	Industrial/ Commercial	Medium	Self use	100%
Room 301, No.2 Tin Hoi East Road, Guangzhou City, People's Republic of China	Residential	Long	Rental	100%
Units 801-814 on Level 8 of West Tower, Yang Cheng Guo Ji Shang Mao Centre, Tiyu East Road, Guangzhou, People's Republic of China	Commercial	Long	Rental	100%