

## **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*  
22nd Floor, Prince's Building  
Central  
Hong Kong

## **LEGAL ADVISORS**

Baker & McKenzie  
14/F Hutchison House  
10 Harcourt Road  
Central  
Hong Kong

## **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

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**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of the members of the Company will be held at Harbour Plaza Hong Kong, Salon III, 1/F, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong, on Tuesday, 28th August 2001 at 4:00 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 2001;
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 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 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”;

## NOTICE OF ANNUAL GENERAL MEETING

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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 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 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 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

6. 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 5 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.”

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

Hong Kong, 26th July 2001

*Notes:*

- (a) The Register of Members will be closed from Tuesday 21 August 2001 to Tuesday 28 August 2001, 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 6 above will be despatched to shareholders with the 2001 Annual Report.

## GROUP RESULTS

On behalf of the directors, I am pleased to present the Group's results for the year ended 31st March 2001.

## DIVIDEND

The directors do not recommend the payment of any dividend for the year ended 31st March 2001 (2000: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Overview of the Group

The past year has been a challenging year for the Group. Amid a pan-regional economic downturn, the Group's sales and movie program licensing revenue have been negatively affected by a general weakness in demands for entertainment products in the Asia-Pacific region. A general depreciation of exchange rates of local currencies in the region vis-a-vis Hong Kong dollar has further exacerbated the revenue weakness in Hong Kong dollar terms. Moreover, weak demands have triggered more intense price competitions. Against all these odds, the Group has achieved an increase in turnover of 7% from HK\$192,493,000 in FY2000 to HK\$205,748,000 in FY2001.

Overall gross profit, however, has decreased by 34% as a result of the persisting margin pressure from the intensified price competitions and the general deflation casting over the region during the year under review.

### Film and Program Distribution in AudioVisual Product formats

Turnover for film and program distribution in audiovisual product formats in total has increased by 12%, with turnover in Video Compact Disc ("VCD") format increased by 6% and in Digital Versatile Disc ("DVD") format by 116%, respectively. The significant growth in turnover was primarily driven by the increased effectiveness of the Group's strong distribution network and by the Group's prolific library of films and programs. Further, the growth in distribution of audiovisual products in DVD format in particular was additionally driven by a more popular demand of DVD products. This was attributable to the superb quality of DVD in sound and picture over the VCD format and a general price reduction of the DVD players.

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

Turnover for film exhibition and film rights sub-licensing has decreased by 6% in the year under review, mainly attributable to the general weakness of economies in the region and depreciation of regional currencies.

**Provision of Internet and related services**

Turnover for the provision of internet related services has decreased by 18% from last year, mainly due to downsizing and close-down of many Internet Content Providers in the region during the year.

Against the challenging market conditions, the Group has achieved a profit attributable to shareholders of HK\$1,198,000 during the year (2000: HK\$18,095,000). The Group succeeded in separate listing of its technology arm, M21 Technology Limited ("M21"), on the Growth Enterprise Market of the Stock Exchange of Hong Kong on 30th March 2001 and recorded a dilution gain upon the dilution of equity interest in M21 on its listing. This has helped to partially offset some losses by associated companies and a jointly controlled entity.

**PROSPECTS — POSITION FOR NEW CHALLENGES**

Looking forward, the directors are confident about the Group's development future.

Firstly, China's pending entry into the World Trade Organization is providing an unprecedented opportunity for the Group. The WTO entry will bring out much-needed economic stimuli and further catalyze the economic reform and legal reform that are currently in progress in China. This will help to substantially expand market demands for entertainment products, improving protection of copyrights and opening up markets that were previously not open to overseas operators. With a strong distribution network currently underdevelopment in China and several long established sino-foreign joint ventures in China, the Group is well positioned to capitalize on the new market opportunities.

Secondly, the cyclical headwind in the region that worked against the Group is likely to turn around in the coming years. With expected economic recovery of the region in 2002, the directors expect the market demands to rebound soon.

Thirdly, the recent technological development is opening up uncharted territories for the Group. With rapid development of broadband internet services with various webcasting, multicasting and video-on-demand technologies that are bringing down some of the existing market barriers, the Directors believe that the Group is poised to increase its market share of the entertainment markets in the region.

To take advantage of these opportunities, the Group is taking the strategy of increasing Total Market Penetration by leveraging its strength in its movie library and the distribution network. The Group intends to increase its total market penetration by maximize its market share in all product media and geographic markets and by improving profitability of total distribution network. This will be achieved by strengthening and expanding its existing distribution networks and by developing new distribution channels and geographic markets, and by synergistic interaction of these product media and markets.

To implement this strategy, the Group is seeking to further monetize its movie library through product media proliferation and geographic market expansion. The Group's library is one of the most prolific Chinese movie libraries in the world. It has numerous Chinese blockbusters, TV drama series of famous Chinese readings or historic figures, collections of well-known Japanese directors, educational programs and documentary series on nature, animals and Chinese culture as well as customs and medicated foods. The directors expect the demands for our products to substantially increase in the coming years.

As another key step to implement the strategy, the Group is making a major move to enter the TV market by launching a pan-regional satellite movie channel service on 28th March 2001. The Group aims to develop it into a premier Chinese home cinema or "Chinese HBO" for billions of Chinese viewers in the region, with a long term strategic objective of developing it into the Chinese Movie Channel of Choice for all Chinese-Language viewers over the world. MATV Limited ("MATV"), the Group's wholly owned subsidiary, was granted a non-domestic television program service license on 12th April 2001 by the Broadcasting Authority of HKSAR for a period of 12 years.

With the Group's popular film and program library and strong synergy with our other traditional and new-technology distribution channels, we enjoy the competitive advantages over many other broadcasters in delivering a comprehensive package of movies and TV programs profitably. We believe that the Group has what it takes to make it a successful venture.

This new sector is going to substantially alter the Group's business mix and improve its profit potential by opening up markets in the region as well as in Northern America and Europe previously inaccessible to the Group. It will open up a variety of revenue streams to the Group including commercial advertisement, signal sales, sub-licensing of different blocks of TV program to other TV operators, or joint venture opportunities for profit sharing co-operation with property developers for in-house TV. Eyeing on the PRC markets, the Group has made application to the State Administration of Film, Radio and Television of the PRC for license to broadcast in three-star and/or higher rating hotels and foreign communities through satellite as an initial exploration of the PRC markets.

The Group is also exploring the new opportunities arising from the broadband services by seeking strategic alliances with major internet operators in each of the key regional markets such as Hong Kong and China. The directors expect the Group to make significant breakthrough to become key movie content providers for major broadband operators in the markets.

The Group's 41% owned associated company — China Culture Media Group Co. Ltd. (formerly known as China 10K.com Co. Ltd.), is transforming its internet operation, by reposition itself for a powerhouse of broadband content aggregation and marketing, focusing on broadband content production and aggregation in the areas of animation, interactive movie and cultural programs. Additionally, the Group is in the process of rationalizing the cost structure for the division.

The Group is also strengthening its traditional distribution network of movie licensing and DVD/VCD distribution in the region, aiming to enhance profitability by increasing operation efficiency and market penetration.

Our brand name "Mei Ah Entertainment" has long been a mainstay of the home entertainment industry in the region, looked to by billions of Chinese for the films and tele-features we produce and distribute. We have been successful in our ventures, and boast a film library of popular titles that is one of the most prolific of any in Hong Kong. We will continue to maximize the shareholder returns by positioning ourselves for growth and expansion in the industry and to reward our customers by offering audiovisual products of highest quality.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group has banking facilities amounting to HK\$83,274,000 of which 65.5% had been utilized as at 31st March 2001 to finance its normal trading operations.

The Group's gearing ratio as at the balance sheet date was 0.104 (2000: 0.065) which was calculated based on the total bank loans of HK\$39,304,000 (2000: HK\$24,551,000) and shareholders' funds of HK\$376,460,000 (2000: HK\$378,145,000).

## EMPLOYEES

As at 31st March 2001, the Group employed 95 staffs. 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, 25th July 2001



The directors submit their report together with the audited accounts for the year ended 31st March 2001.

### **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 29 to the accounts.

An analysis of the group's turnover and contribution to operating profit for the year by each principal activity is set out in note 2 to the accounts.

### **RESULTS AND APPROPRIATIONS**

The results for the year are set out in the consolidated profit and loss account on page 21.

The directors do not recommend the payment of a dividend.

### **CAPITALISATION ISSUE**

At the Annual General Meeting held on 28th September 2000, the directors recommended 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 of the company.

On 13th October 2000, the date that the bonus issue became unconditional, both the exercise price and the total number of share options granted were adjusted in the manner as disclosed in note 20 to the accounts.

### **RESERVES**

Movements in the reserves of the group and the company during the year are set out in note 21 to the accounts.

### **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 58.

## SHARE CAPITAL

Details of the movements in share capital and share options of the company are set out in notes 19 and 20 to the accounts respectively.

## SUBSIDIARIES, ASSOCIATED COMPANIES AND A JOINTLY CONTROLLED ENTITY

Details of the principal subsidiaries, associated companies and a jointly controlled entity are set out in notes 29, 30 and 12 to the accounts respectively.

## 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 57.

## PARTICULARS OF BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

The group's bank loans, overdrafts and other borrowings as at 31st March 2001 are repayable over the following periods:

	<b>Bank loans and overdrafts</b>	<b>Obligations under finance leases</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
On demand or not exceeding one year	28,292	542
More than one year but not exceeding two years	1,389	353
More than two years but not exceeding five years	1,001	29
Exceeding five years	22,398	—
	<u>53,080</u>	<u>924</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>2001</b>	2000
Purchases		
— the largest supplier	<b>44%</b>	56%
— five largest suppliers combined	<b>61%</b>	72%
Sales		
— the largest customer	<b>27%</b>	13%
— five largest customers combined	<b>39%</b>	27%

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.

## PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, the company's wholly-owned subsidiary — Mei Ah Investment Company Limited purchased 41,400 shares of HK\$0.1 each of the company at HK\$2 per share for a consideration of approximately HK\$83,000 for the purpose of cancellation. As at year end date, such shares are in the process of cancellation.

Save as disclosed above, neither the company nor any of its subsidiaries purchased, sold or redeemed any of the company's listed securities 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 CHAN Ngan Piu and Mr LEE Man Kwong retire and, being eligible, offer themselves for re-election.

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

## BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

### Executive directors

Mr. LI Kuo Hsing, aged 42, is the founder, chairman and a major shareholder of the group, and a recognized leader of the Hong Kong entertainment industry. With over 18 years of experience in the home video and media entertainment industry, he 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.

Mr. TONG Hing Chi, aged 46, 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 14 years of experience in the home video and media entertainment industry in Hong Kong and overseas.

## **BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT** *(continued)*

### **Executive directors** *(continued)*

Mr. CHAU Kei Leung, aged 37, 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 14 years of experience in the home video entertainment industry.

### **Non-executive directors**

Mr. CHAN Ngan Piu, aged 66, has over 32 years of experience in the manufacturing sector in Hong Kong and Mainland China. He joined the Group in 1988.

### **Independent non-executive directors**

Mr. LEE Man Kwong, aged 47, has been practising as a solicitor in Hong Kong for over 17 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 59, 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 50, 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 25 years of experience in the film industry.

Mr. HO Po Nin, Benny, aged 41, 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 13 years of experience in the home video entertainment industry.

**BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT** *(continued)***Senior management** *(continued)*

Mr. LAM King Pui, Ken, aged 35 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 10 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 52, 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 23 years of experience in the film and audio video business in Hong Kong and Mainland China.

Mr. AU Hon Ming, William, aged 51, is the Chief Executive Officer of MATV Limited. Mr Au is a television veteran with experience in the television industry for over 24 years. He has worked in Television Broadcasts Limited and Asia Television Limited as senior management. Mr Au left his Vice-presidency in the Marketing & Sales Division of ATV in May 2000 and joined MATV Limited then.

Mr. MA Wai Ho, Joe, aged 37, 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 16 years of film production and creative experiences. Over the past 11 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 determinable 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.

## DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 31st March 2001, 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	9,937,500	37,968,750 <i>Note (a)</i>	370,241,510 <i>Note (b)</i>
Mr TONG Hing Chi	3,375,000	—	—
Mr CHAN Ngan Pui	2,025,000	—	—
Mr CHAU Kei Leung	7,209,000	—	—

*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.

**DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES** *(continued)***(a) Ordinary shares of HK\$0.1 each** *(continued)*

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

	<b>Number of shares beneficially held</b>
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 (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.

**(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 an aggregate of 14,000,000 Share Options to all the executive directors to acquire shares of HK\$0.1 each in the company. The Share Options are exercisable from 19th August 2000 to 18th August 2002. The exercise price of the outstanding Share Options was adjusted from HK\$3.38 per share to HK\$1.1267 per share and the number of outstanding Share Options was also adjusted from 14,000,000 shares to 42,000,000 shares to reflect the effect of the bonus issue of the company during the year.



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

**(b) Share options** *(continued)*

No such Share Options were exercised during the year. As at 31st March 2001, the outstanding Share Options granted by the company to the executive directors were as follows:

<b>Name of Director</b>	<b>Number of Share Options</b>
Mr LI Kuo Hsing	15,000,000
Mr TONG Hing Chi	13,500,000
Mr CHAU Kei Leung	13,500,000

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 2001, 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 2001, the reserves of the company available for distribution amounted to approximately HK\$169,556,000 (2000: HK\$169,728,000). 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.

**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 2001 as set out in Appendix 14 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (“Listing Rules”).

## **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.

## **POST BALANCE SHEET EVENTS**

Details of the significant post balance sheet date events are set out in note 28 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, 26th July 2001



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 21 to 56 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 judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the company and the group, 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 2001 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, 26th July 2001

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st March 2001

	<i>Note</i>	<b>2001</b> <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Turnover	2	<b>205,748</b>	192,493
Cost of sales		<u><b>(165,673)</b></u>	<u>(132,222)</u>
Gross profit		<b>40,075</b>	60,271
Other revenues	2	<b>19,503</b>	15,120
Other income	3	<b>16,193</b>	—
Selling and marketing expenses		<b>(15,119)</b>	(14,513)
Administrative expenses		<b>(38,256)</b>	(22,054)
Other expenses		<u><b>(6,472)</b></u>	<u>(7,711)</u>
Operating profit	3	<b>15,924</b>	31,113
Finance costs	4	<b>(4,003)</b>	(3,507)
Share of loss of a jointly controlled entity		<b>(1,926)</b>	(2,364)
Share of losses less profits of associated companies		<u><b>(7,564)</b></u>	<u>(7,147)</u>
Profit before taxation		<b>2,431</b>	18,095
Taxation	5	<u><b>1,233</b></u>	<u>—</u>
Profit attributable to shareholders	6	<u><b>1,198</b></u>	<u>18,095</u>
Earnings per share — basic	7	<u><b>0.2 cents</b></u>	<u>2.7 cents</u>

# CONSOLIDATED BALANCE SHEET

As at 31st March 2001

	<i>Note</i>	<b>2001</b> <b>HK\$'000</b>	2000 <i>HK\$'000</i>
Fixed assets	10	<b>181,081</b>	143,668
Interest in a jointly controlled entity	12	<b>2,520</b>	4,415
Associated companies	13	<b>76,931</b>	52,047
Investment securities	14	<b>8,189</b>	10,110
Film rights and films in progress		<b>52,244</b>	57,789
Pledged bank deposits	26	—	14,000
Deposit for acquisition of additional interest in an associated company		—	8,000
<b>Current assets</b>			
Inventories	15	<b>12,993</b>	16,470
Film sub-licensing rights and deposits	16	<b>77,697</b>	64,078
Accounts receivable	17	<b>20,787</b>	17,394
Prepayments, deposits and other receivables		<b>25,021</b>	17,201
Tax recoverable		<b>3</b>	410
Other investments	14	<b>20</b>	—
Bank balances and cash		<b>1,544</b>	39,389
		<b>138,065</b>	154,942
<b>Current liabilities</b>			
Accounts payable	18	<b>8,418</b>	9,877
Receipts in advance and accruals		<b>18,653</b>	17,212
Bills payable		<b>1,495</b>	6,210
Bank loans — secured	22(a)	<b>14,516</b>	12,426
Obligations under finance leases	22(b)	<b>542</b>	16
Bank overdrafts			
— secured	26	<b>12,409</b>	8,683
— unsecured		<b>1,367</b>	216
		<b>57,400</b>	54,640
Net current assets		<b>80,665</b>	100,302
		<b>401,630</b>	390,331
<b>Financed by:</b>			
Share capital	19	<b>77,112</b>	25,704
Reserves	21	<b>299,348</b>	352,441
Shareholders' funds		<b>376,460</b>	378,145
Long-term liabilities	22	<b>25,170</b>	12,186
		<b>401,630</b>	390,331

**Li Kuo Hsing**  
*Director*

**Tong Hing Chi**  
*Director*

## BALANCE SHEET

As at 31st March 2001

	<i>Note</i>	<b>2001</b> <b>HK\$'000</b>	2000 <i>HK\$'000</i>
Subsidiaries	11	<b>469,725</b>	429,233
Associated companies	13	<b>(2)</b>	40,519
Current assets			
Accounts receivable		327	327
Bank balances and cash		1	17
		<b>328</b>	344
Current liabilities			
Accounts payable and accruals		521	361
Net current liabilities		<b>(193)</b>	(17)
		<b>469,530</b>	469,735
Financed by:			
Share capital	19	<b>77,112</b>	25,704
Reserves	21	<b>392,418</b>	444,031
		<b>469,530</b>	469,735
<b>Li Kuo Hsing</b> <i>Director</i>			<b>Tong Hing Chi</b> <i>Director</i>

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March 2001

	Note	2001 HK\$'000	2000 HK\$'000
Net cash inflow from operating activities	23(a)	19,238	21,693
Returns on investments and servicing of finance			
Dividend received		—	750
Interest received		4,512	6,209
Interest paid		(3,974)	(3,502)
Interest element of finance lease payments		(29)	(5)
Net cash inflow from returns on investments and servicing of finance		509	3,452
Taxation			
Hong Kong profits tax refunded		407	1,001
Investing activities			
Purchase of fixed assets		(56,198)	(53,698)
Sale of fixed assets		10	—
Purchase of investment securities		(183)	(1,943)
Additions to films rights and films in progress		(27,420)	(28,948)
Release of pledged bank deposit		14,000	—
Purchase of an associated company		—	(35)
Purchase of additional equity interest in an associated company		(2,000)	(12,000)
Deposit for acquisition of additional interest in an associated company		—	(8,000)
Proceeds from liquidation of an associated company		—	12
Increase in net advances to associated companies		(7,442)	(36,028)
(Advance to)/repayment from a jointly controlled entity		(31)	1,635
Repayment from/(advances to) investee companies		2,021	(121)
Net cash outflow from investing activities		(77,243)	(139,126)
Net cash outflow before financing		(57,089)	(112,980)
Financing	23(b)		
Issue of shares — net proceeds		—	139,390
Expenses incurred in connection with the capitalisation issue		(33)	—
Bank loans raised		12,473	12,189
Repayment of capital element of finance leases		(353)	(1,322)
Net cash inflow from financing		12,087	150,257
(Decrease)/increase in cash and cash equivalents		(45,002)	37,277
Cash and cash equivalents at 1st April		23,770	(13,507)
Cash and cash equivalents at 31st March		<u>(21,232)</u>	<u>23,770</u>
Analysis of cash and cash equivalents			
Bank balances and cash		1,544	39,389
Bank overdrafts		(13,776)	(8,899)
Bank loans		(9,000)	(6,720)
		<u>(21,232)</u>	<u>23,770</u>

## STATEMENT OF RECOGNISED GAINS AND LOSSES

For the year ended 31st March 2001

	<i>Note</i>	<b>2001</b> <b>HK\$'000</b>	2000 <i>HK\$'000</i>
Revaluation deficit on investment properties	21	<b>(350)</b>	(958)
Revaluation (deficit)/surplus on other properties	21	<u><b>(2,500)</b></u>	<u>3,329</u>
Net (losses)/gains not recognised in the profit and loss account		<b>(2,850)</b>	2,371
Profit for the year		<u><b>1,198</b></u>	<u>18,095</u>
Total recognised gains and losses		<b>(1,652)</b>	20,466
Goodwill eliminated directly against reserve	21	<u>—</u>	<u>(9,925)</u>
		<u><b>(1,652)</b></u>	<u>10,541</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, leasehold land and buildings and other investments.

### (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 diminution in value other than temporary in nature. 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 *(continued)*

### (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) Investments in securities

#### (i) *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.

#### (ii) *Other investments*

Other investments are carried at fair value. At each balance sheet date, the net unrealised gain or loss arising from the change in fair value of other investments is recognised in the profit and loss account. Profit or loss on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

### (f) 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. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

**1 Principal accounting policies** *(continued)*

**(f) Investment properties** *(continued)*

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.

**(g) Properties under development**

Properties under development are investments in land and buildings where their construction work have not been completed. 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 land and properties under development.

**(h) 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.

**1 Principal accounting policies** *(continued)***(h) Property, plant and equipment** *(continued)*

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.

**(i) Assets under leases****(i) Finance leases**

Leases that substantially transfer to the group all the rewards and risks of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased asset or present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charges to the profit and loss account over the lease periods.

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. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

**(j) 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.

**1 Principal accounting policies** *(continued)*

**(j) Film and sub-licensing rights** *(continued)*

*(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.

*(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.

**(k) 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.

**(l) 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.

**(m) 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.

**1 Principal accounting policies** *(continued)***(n) Retirement benefit costs**

The group's contributions to the defined contribution retirement scheme and the mandatory provident fund scheme are expensed as incurred. The group's contribution to the defined contribution retirement scheme and the group's voluntary contribution to the mandatory provident fund scheme 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.

**(o) 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.

**(p) 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) Film exhibition income is recognised when the right to receive payment is established.
- (iv) Internet and related service fee income is recognised when the relevant services are rendered.
- (v) Rental income is recognised on an accrual basis.
- (vi) Dividend income is recognised when the right to receive payment is established.
- (vii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

## 2 Revenues and turnover

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

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Turnover		
Distribution of films and programs in audio visual product formats	161,985	144,739
Film exhibition and film rights sub-licensing	40,244	42,997
Provision of internet and related services	2,672	3,273
Others	847	1,484
	<u>205,748</u>	<u>192,493</u>
Other revenues		
Rental income from investment properties	995	968
Rental income from land and buildings and sub-letting of properties and plant and machinery	13,996	7,443
Interest income	4,512	6,209
Dividend income from unlisted investments	—	500
	<u>19,503</u>	<u>15,120</u>
Total revenues	<u><u>225,251</u></u>	<u><u>207,613</u></u>

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

	Turnover		Operating profit	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Distribution of films and programs in audio visual product formats	161,985	144,739	12,472	33,037
Film exhibition and film rights sub-licensing	40,244	42,997	(7,210)	(4,073)
Provision of internet and related services	2,672	3,273	(162)	1,173
Others	847	1,484	10,824	976
	<u>205,748</u>	<u>192,493</u>	<u>15,924</u>	<u>31,113</u>

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

**3 Operating profit**

	<b>2001</b> <i>HK\$'000</i>	2000 <i>HK\$'000</i>
The operating profit is stated after crediting and charging the following:		
<b>Crediting</b>		
Gains on dilution of interests in associated companies, net of premium on acquisition of additional interests in the associated companies prior to the dilution <i>(note 30 (a) and (b))</i>	<u><b>16,193</b></u>	<u>—</u>
<b>Charging</b>		
Depreciation:		
— owned fixed assets	<b>15,578</b>	8,434
— leased fixed assets	<b>151</b>	1,224
Auditors' remuneration	<b>842</b>	720
Operating lease rentals in respect of land and buildings	<b>3,019</b>	2,548
Outgoings in respect of investment properties	<b>23</b>	21
Amortisation of film rights	<b>32,965</b>	26,990
Unrealised loss on other investments	<b>63</b>	—
Provision for irrecoverable accounts receivable, films and other deposits	<b>8,431</b>	5,500
Provision for obsolete inventories	<b>450</b>	—
Deficit arising on revaluation of land and buildings not covered by previous revaluation surplus	<b>1,390</b>	2,349
Staff costs	<u><b>24,805</b></u>	<u>18,251</u>

**4 Finance costs**

	<b>2001</b> <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Interest on bank loans and overdrafts	<b>3,892</b>	3,502
Interest on loan from an associated company	<b>82</b>	—
Interest element of finance leases	<b>29</b>	5
	<u><b>4,003</b></u>	<u>3,507</u>



## 5 Taxation

No provision for Hong Kong and overseas profits tax has been made for as there are sufficient tax losses carried forward at the balance sheet date.

The group's jointly controlled entity in the People's Republic of China (the "PRC") did not have any assessable income for the year for the PRC tax purposes and accordingly no provision for the PRC taxation has been made in the accounts.

The amount of taxation charged to the consolidated profit and loss account represents:

	<b>2001</b> <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Share of taxation attributable to:		
Associated company	<u>1,233</u>	<u>—</u>
	<u><b>1,233</b></u>	<u><b>—</b></u>

No provision for net potential deferred tax assets amounting to HK\$9,291,000 (2000: HK\$13,566,000) has been made in the accounts as it is uncertain that such assets will crystallise in the foreseeable future. At 31st March 2001, the group had potential deferred tax assets in respect of tax losses amounting to HK\$16,937,000 (2000: HK\$16,056,000) and deferred tax liabilities in respect of accelerated depreciation allowances amounting to HK\$7,646,000 (2000: HK\$2,490,000).

## 6 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the company to the extent of a loss of HK\$172,000 (2000: HK\$21,000).

## 7 Earnings per share

The calculation of basic earnings per share is based on the group's profit attributable to shareholders of HK\$1,198,000 (2000: HK\$18,095,000) and on 771,124,200 (2000: 679,699,644) shares in issue taking into account the effect of the bonus issue on 13th October 2000. The earnings per share for 2000 has been adjusted accordingly.

The outstanding share options as at 31st March 2001 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>2001</b> <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Fees	<b>250</b>	130
Other emoluments		
— basic salaries, allowances and other benefits in kind	<b>3,943</b>	3,943
Discretionary bonuses	—	—
Pension contribution	<b>191</b>	191
	<u><b>4,384</b></u>	<u>4,264</u>

Directors' fees are paid to independent non-executive directors.

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 on 28th January 2000 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.

As a result of the bonus issue of the company during the year, the exercise price of the outstanding Share Options of the company was adjusted to HK\$1.1267 per share and the total number of outstanding share options was also adjusted to 42,000,000. No such Share Options were exercised during the year.

The emoluments of the directors fell within the following bands:

	<b>Number of directors</b>	
	<b>2001</b>	2000
HK\$ Nil - HK\$1,000,000	<b>4</b>	4
HK\$1,000,001 - HK\$1,500,000	<b>1</b>	1
HK\$2,000,001 - HK\$2,500,000	<b>1</b>	1
	<u><b>6</b></u>	<u>6</u>

No directors have waived any of their emoluments in respect of the years ended 31st March 2001 and 2000.

**8 Directors' and senior management's emoluments** *(continued)*

- (b) The five individuals whose emoluments were the highest in the group for the year include two (2000: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2000: three) individuals during the year are as follows:

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Basic salaries, allowances and other benefits in kind	<b>2,319</b>	2,251
Pension contributions	<b>91</b>	82
	<u><b>2,410</b></u>	<u>2,333</u>

The emoluments fell within the following bands:

	<b>Number of individuals</b>	
	<b>2001</b>	2000
HK\$ Nil - HK\$1,000,000	<b>2</b>	3
HK\$1,000,001 - HK\$1,500,000	<b>1</b>	—
	<u><b>3</b></u>	<u>3</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>2001</b> <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Gross employer's contributions	<b>702</b>	678
Less: Forfeited contribution and their accrued interest utilised to offset employer's contribution for the year	<u>(55)</u>	<u>(189)</u>
Net employer's contributions charged to profit and loss account	<u><b>647</b></u>	<u>489</u>

As at 31st March 2001, forfeited contributions available to the group to reduce its contributions to the pension scheme in future years were not material.

With effect from 1st December 2000, the group also provides a mandatory provident fund scheme ("MPF Scheme") for its staff in Hong Kong in compliance with the requirements under the Mandatory Provident Fund Scheme Ordinance. In addition to the mandatory contribution, the group, in respect of those employees who joined the group on or before 30th November 2000 or who have been employed by the group for more than 3 years, make a voluntary contribution, the amount of which is equal to 5% of the employee's basic salary less the amount of mandatory contribution which the employer has made for that employee. All benefits derived from the mandatory contribution must be preserved until the employee reaches the retirement age of 65 subject to certain exceptions. The accrued benefits of an employee which are derived from the group's mandatory and voluntary contributions under the MPF scheme can be used to offset any long service payments or severance payments payable to that employee. The total contribution to the MPF Scheme paid by the group for the year ended 31st March 2001 amounted to HK\$235,000.

# NOTES TO THE ACCOUNTS

## 10 Fixed assets

	Group							Total
	Investment	Properties	Leasehold	Leasehold	Furniture,	Plant and	Motor	
	properties	under	land and	improvements	and	machinery	vehicles	
	development	buildings	improvements	equipment	and	vehicles	vehicles	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Cost or valuation:								
At 1st April 2000	19,250	33,694	31,500	4,677	4,894	81,353	3,652	179,020
Adjustment on revaluation	(350)	—	(4,550)	—	—	—	—	(4,900)
Additions, at cost	—	55,455	—	—	489	254	1,200	57,398
Transfers	2,254	—	(2,254)	—	—	—	—	—
Disposals	—	—	—	—	(18)	—	—	(18)
At 31st March 2001	<u>21,154</u>	<u>89,149</u>	<u>24,696</u>	<u>4,677</u>	<u>5,365</u>	<u>81,607</u>	<u>4,852</u>	<u>231,500</u>
At cost	—	89,149	—	4,677	5,365	81,607	4,852	185,650
At 2001 professional valuation	<u>21,154</u>	<u>—</u>	<u>24,696</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>45,850</u>
	<u>21,154</u>	<u>89,149</u>	<u>24,696</u>	<u>4,677</u>	<u>5,365</u>	<u>81,607</u>	<u>4,852</u>	<u>231,500</u>
Accumulated depreciation								
At 1st April 2000	—	—	—	2,350	3,039	26,911	3,052	35,352
Charge for the year	—	—	660	470	540	13,688	371	15,729
Adjustment on revaluation	—	—	(660)	—	—	—	—	(660)
Disposals	—	—	—	—	(2)	—	—	(2)
At 31st March 2001	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,820</u>	<u>3,577</u>	<u>40,599</u>	<u>3,423</u>	<u>50,419</u>
Net book value								
As at 31st March 2001	<u>21,154</u>	<u>89,149</u>	<u>24,696</u>	<u>1,857</u>	<u>1,788</u>	<u>41,008</u>	<u>1,429</u>	<u>181,081</u>
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>

**10 Fixed assets** *(continued)*

- (a) Except for certain leasehold land and buildings situated in the PRC amounting to HK\$12,500,000 (2000: 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 2001, certain properties and plant and machinery with net book values of HK\$41,870,000 (2000: HK\$32,167,000) and HK\$14,439,000 (2000: HK\$19,252,000) respectively, were pledged as security for banking facilities granted to the group (note 26).
- (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 2001.
- (d) The carrying amount of leasehold land and buildings would have been HK\$37,371,000 (2000: HK\$40,035,000) had they been stated at cost less accumulated depreciation.
- (e) At 31st March 2001, the net book value of assets held by the group under finance leases amounted to HK\$1,181,858 (2000: HK\$76,000).
- (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**

	<b>Company</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost <i>(note (a))</i>	<b>46,010</b>	46,010
Amounts due from subsidiaries <i>(note (b))</i>	<b>459,550</b>	418,990
Amounts due to subsidiaries <i>(note (b))</i>	<b>(35,835)</b>	(35,767)
	<b><u>469,725</u></b>	<u>429,233</u>

- (a) Details of subsidiaries are set out in note 29 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	
	2001 HK\$'000	2000 HK\$'000
Share of net liabilities ( <i>note (a)</i> )	(13,667)	(11,741)
Amount due from a jointly controlled entity ( <i>note (b)</i> )	<u>16,187</u>	<u>16,156</u>
	<u><u>2,520</u></u>	<u><u>4,415</u></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	PRC	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 2001 was HK\$14,752,000 (2000: HK\$12,826,000).

- (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.

**13 Associated companies**

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Share of net assets	31,030	5,406	—	—
Amounts due from associated companies ( <i>note (b)</i> )	54,366	52,434	—	40,519
Amounts due to associated companies ( <i>note (b)</i> )	(172)	—	(2)	—
Provision for amount due from an associated company	(5,793)	(5,793)	—	—
Loan from an associated company ( <i>note (c)</i> )	(2,500)	—	—	—
	<u>76,931</u>	<u>52,047</u>	<u>(2)</u>	<u>40,519</u>
Investment at cost:				
Listed shares in Hong Kong	3,682	—	—	—
Unlisted shares	30,037	15,535	—	—
	<u>33,719</u>	<u>15,535</u>	<u>—</u>	<u>—</u>
Market value of listed shares	<u>31,992</u>	<u>—</u>	<u>—</u>	<u>—</u>

- (a) Details of associated companies are set out in note 30 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\$8,955,000 (2000: HK\$33,319,000) due from associated companies which is interest-bearing at Hong Kong dollars prime lending rate plus 1.5 per cent. per annum.
- An interest-free shareholder's loan amounting to HK\$4,500,000 advanced to China10K.com (BVI) Limited, an associated company, was capitalised and applied in paying up in full 576,900 shares of US\$1 each in that company in May 2000.
- The interest-free loans amounting to HK\$3,682,000 advanced to M21 Investment Limited, a subsidiary of an associated company of the group, was capitalised and applied in paying up in full 45 shares of US\$1 each in March 2001.
- (c) The balance due is unsecured, interest bearing at Hong Kong dollars prime lending rate plus 1.5 per cent. per annum and repayable on demand.
- (d) The group's share of the post-acquisition accumulated losses of the associated companies at 31st March 2001 was HK\$22,342,000 (2000: HK\$6,381,000).



## 14 Investments in securities

	Group	
	2001 HK\$'000	2000 HK\$'000
Investment securities:		
Unlisted equity securities, at cost	9,689	9,589
Provision for diminution in value	<u>(1,500)</u>	<u>(1,500)</u>
	8,189	8,089
Loans to investee companies	<u>—</u>	<u>2,021</u>
	<u>8,189</u>	<u>10,110</u>
Other investments:		
Equity securities listed in Hong Kong, at market value (note (a))	<u>20</u>	<u>—</u>

- (a) These represent 41,400 shares of the company which were purchased by the company's wholly owned subsidiary — Mei Ah Investment Company Limited during the year. As at 31st March 2001, such shares are in the process of cancellation.

## 15 Inventories

	Group	
	2001 HK\$'000	2000 HK\$'000
Blank tapes	370	502
Films and programs in audio visual product formats	17,488	20,383
Less: general provision	<u>(4,865)</u>	<u>(4,415)</u>
	<u>12,993</u>	<u>16,470</u>

**16 Film sub-licensing rights and deposits**

As at 31st March 2001, film sub-licensing rights and deposits with an aggregate net book value of HK\$11,886,000 (2000: HK\$15,698,000) are not expected to be realised within the next twelve months from the balance sheet date.

**17 Accounts receivable**

The ageing analysis of accounts receivable is as follows:

	<b>2001</b> <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Current to 3 months	<b>18,381</b>	12,500
4 to 6 months	<b>516</b>	736
Over 6 months	<b>1,890</b>	4,158
	<b><u>20,787</u></b>	<b><u>17,394</u></b>

The sales of films and programs in audio visual product formats are with credit terms of 7 to 30 days. The turnover from film exhibition, film rights sub-licensing and the provision of internet and information technology and related services are on open account term. Certain balances are covered by customers' deposits placed with the group.

**18 Accounts payable**

The ageing analysis of accounts payable is as follows:

	<b>2001</b> <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Current to 3 months	<b>3,492</b>	3,456
4 to 6 months	<b>2,141</b>	4,542
Over 6 months	<b>2,785</b>	1,879
	<b><u>8,418</u></b>	<b><u>9,877</u></b>

## 19 Share capital

	<b>Authorised Shares of HK\$0.1 each</b>	
	<b>No. of shares (Thousands)</b>	<b>HK\$'000</b>
At 31st March 2000 and 31st March 2001	<u>3,000,000</u>	<u>300,000</u>
	<b>Issued and fully paid Shares of HK\$0.1 each</b>	
	<b>No. of shares (Thousands)</b>	<b>HK\$'000</b>
At 31st March 2000	257,042	25,704
Issue of shares (note (a))	<u>514,083</u>	<u>51,408</u>
At 31st March 2001	<u>771,125</u>	<u>77,112</u>

- (a) On 13th October 2000, the issued share capital of the company was increased to HK\$77,112,000 by applying HK\$51,408,000 standing to the credit of the share premium account in payment in full at par of 514,083,000 ordinary shares of HK\$0.1 each on the basis of two new ordinary shares for one share held on 28th September 2000. These shares rank pari passu in all respects with the existing issued shares.

## 20 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.

As a result of the bonus issue of shares during the year (note 19(a)), the exercise price of the outstanding share options of the company granted on 28th January 2000 was adjusted from HK\$3.38 to HK\$1.1267 per share and the total number of outstanding share options increased from 20,000,000 to 60,000,000. The options are exercisable at any time during the period from 19th August 2000 to 18th August 2002. As at 31st March 2001, all the Share Options remained outstanding.

## 21 Reserves

	Group						Total HK\$'000
	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange difference HK\$'000	Investment properties revaluation reserve HK\$'000	Other properties revaluation reserve HK\$'000	Accumulated losses HK\$'000	
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>
At 1st April 2000	274,303	118,620	(306)	4,583	3,329	(48,088)	352,441
Capitalisation issue	(51,408)	—	—	—	—	—	(51,408)
Issuing expenses	(33)	—	—	—	—	—	(33)
Deficit on revaluation of properties (note (a))	—	—	—	(350)	(2,500)	—	(2,850)
Profit for the year	—	—	—	—	—	1,198	1,198
At 31st March 2001	<u>222,862</u>	<u>118,620</u>	<u>(306)</u>	<u>4,233</u>	<u>829</u>	<u>(46,890)</u>	<u>299,348</u>

**21 Reserves** *(continued)*

	<b>Company</b>			
	<b>Share premium</b>	<b>Contributed surplus</b>	<b>Accumulated losses</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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>
At 1st April 2000	274,303	174,556	(4,828)	444,031
Capitalisation issue	(51,408)	—	—	(51,408)
Issuing expenses	(33)	—	—	(33)
Loss for the year	—	—	(172)	(172)
At 31st March 2001	<u>222,862</u>	<u>174,556</u>	<u>(5,000)</u>	<u>392,418</u>

- (a) These represent 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(f) and (h) to the accounts.
- (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.

**22 Long-term liabilities**

	<b>Group</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Bank loans — secured ( <i>note (a)</i> )	<b>39,304</b>	24,551
Obligations under finance leases ( <i>note (b)</i> )	<b>924</b>	77
	<u>40,228</u>	<u>24,628</u>
Current portion of long-term liabilities	<b>(15,058)</b>	<b>(12,442)</b>
	<u><b>25,170</b></u>	<u><b>12,186</b></u>

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

	<b>Group</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Within one year	<b>14,516</b>	12,426
In the second year	<b>1,389</b>	5,706
In the third to fifth years inclusive	<b>1,001</b>	3,570
More than five years	<b>22,398</b>	2,849
	<u>24,788</u>	<u>12,125</u>
	<u><b>39,304</b></u>	<u><b>24,551</b></u>

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

	<b>Group</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Within one year	<b>542</b>	16
In the second year	<b>353</b>	16
In the third to fifth years inclusive	<b>29</b>	45
	<u>382</u>	<u>61</u>
	<u><b>924</b></u>	<u><b>77</b></u>

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

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

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Profit before taxation	<b>2,431</b>	18,095
Share of loss of a jointly controlled entity	<b>1,926</b>	2,364
Share of losses less profits of associated companies	<b>7,564</b>	7,147
Gains on dilution of interests in associated companies	<b>(16,193)</b>	—
Interest income	<b>(4,512)</b>	(6,209)
Interest on bank loans and overdrafts	<b>3,974</b>	3,502
Interest element on finance leases	<b>29</b>	5
Dividend income from unlisted investments	—	(500)
Deficit arising on revaluation of leasehold land and buildings not covered by previous revaluation surplus	<b>1,390</b>	2,349
Unrealised loss on other investments	<b>63</b>	—
Loss on disposal of fixed assets	<b>6</b>	—
Depreciation of owned fixed assets	<b>15,578</b>	8,434
Depreciation of fixed assets held under finance leases	<b>151</b>	1,224
Amortisation of films rights	<b>32,965</b>	26,990
Loss on liquidation of an associated company	—	18
Decrease/(increase) in inventories	<b>3,431</b>	(1,709)
Increase in films sub-licensing rights and deposits	<b>(13,619)</b>	(17,426)
Increase in accounts receivable	<b>(3,393)</b>	(316)
Increase in prepayments, deposits and other receivables	<b>(7,820)</b>	(11,071)
Decrease in accounts and bills payable, receipts in advance and accruals	<b>(4,733)</b>	(11,204)
	<hr/>	<hr/>
Net cash inflow from operating activities	<b><u>19,238</u></b>	<b><u>21,693</u></b>

**23 Notes to the consolidated cash flow statement** (continued)

## (b) Analysis of changes in financing during the year

	Share capital including share premium		Bank loans and finance lease obligations	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
At 1st April	300,007	160,617	17,908	7,041
Issue of shares	—	142,730	—	—
Issuing expenses	(33)	(3,340)	—	—
Payment of capital element of finance leases	—	—	(353)	(1,322)
Bank loans raised	—	—	12,473	12,189
Inception of finance lease (note (c))	—	—	1,200	—
At 31st March	<u>299,974</u>	<u>300,007</u>	<u>31,228</u>	<u>17,908</u>

## (c) Major non-cash transactions

During the year, the group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the lease of HK\$1,200,000 (2000: Nil).

During the year, two associated companies issued additional shares to other independent investors outside the group. As a result, the interest of the group in such associated companies were diluted. Such dilution resulted in a gain of approximately HK\$16,193,000 (notes 3 and 30).

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

The interest-free loans amounting to HK\$3,682,000 advanced to M21 Investment Limited, a subsidiary of an associated company of the group, was capitalised and applied in paying up 45 shares of US\$1 each in that company in full in March 2001.



## 24 Commitments

- (a) As at 31st March 2001, the group had commitments not provided for in these accounts as follows:

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	<b>HK\$'000</b>
(i) Capital commitment for property, plant and machinery	<u>2,570</u>	<u>—</u>
(ii) Capital commitment in respect of land and properties under development	<u>21,871</u>	<u>58,800</u>
(iii) Commitment in respect of the acquisition of an additional interest in an associated company	<u>—</u>	<u>2,000</u>
(iv) Other commitments in respect of		
— film production	<u>26,780</u>	24,976
— film licensing agreements	<u>25,333</u>	<u>31,401</u>
	<u>52,113</u>	<u>56,377</u>

- (b) As at 31 March 2001, 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>2001</b>	2000
	<b>HK\$'000</b>	<b>HK\$'000</b>
Operating leases which expire:		
— within one year	<u>272</u>	865
— in the second to fifth years inclusive	<u>—</u>	<u>102</u>
	<u>272</u>	<u>967</u>

**25 Contingent liabilities**

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Guarantees given to banks in respect of utilised banking facilities of:				
Subsidiaries	—	—	51,454	36,419
Associated companies	2,997	6,971	2,997	6,971
	<u>2,997</u>	<u>6,971</u>	<u>54,451</u>	<u>43,390</u>

**26 Pledge of assets — Group**

- (a) Banking facilities amounting to HK\$83,274,000 (2000: HK\$61,790,000) 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) corporate guarantees executed by the company; and
  - (iii) 30,000,000 shares of the company held by Kuo Hsing Holdings Limited.
- (b) Prior year's bank deposits of HK\$14,000,000 were pledged to a bank to secure banking facilities granted to the group.

## 27 Related party transactions

Save as disclosed in other notes to the accounts, significant related party transactions, which were carried out in the normal course of the group's business are as follows:

	Note	Group	
		2001 HK\$'000	2000 HK\$'000
Purchase of fixed assets from an associated company		—	29,639
Replication fee paid to associated companies	(a)	<b>86,446</b>	83,785
Interest income from associated companies	(b)	<b>3,860</b>	2,802
Origination fees received from associated companies	(c)	<b>366</b>	307
Rental income from associated companies	(d)	<b>13,996</b>	7,429
Website development and web hosting fees from an associated company	(e)	<b>2,040</b>	2,800
Sale of goods to an associated company	(f)	<b>4,601</b>	1,850
Pre-mastering service fee paid to an associated company	(g)	<b>1,091</b>	—

- (a) Replication fee paid to the associated company was 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.
- (b) Interest received from associated companies was charged at Hong Kong prime rate plus 1.5 per cent. per annum.
- (c) Origination fees received from associated companies were charged at prices and terms no less than those charged to other third party customers of the group.
- (d) 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.
- (e) Website development and web hosting fees received from an associated company were determined in accordance with the relevant service agreements.
- (f) 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.
- (g) Pre-mastering service fee paid to an associated company was charged at prices and terms comparable with those charged to and contracted with independent third party customers of the group.

## 28 Post balance sheet date events

Subsequent to year end date, the group disposed of its entire equity interest in Era Information & Entertainment Limited ("Era I&E") following the listing of its shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited in June 2001. The disposal of such investment securities gave rise to a net profit of approximately HK\$6,166,000 which will be recognised in the financial year 2002.

## 29 Group structure — subsidiaries

At 31st March 2001, 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

**29 Group structure — subsidiaries** *(continued)*

At 31st March 2001, the company held interests in the following principal subsidiaries:

<b>Name</b>	<b>Place of incorporation/ operations</b>	<b>Issued/ registered capital</b>	<b>Percentage holding in the voting shares</b>	<b>Nature of business</b>
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
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 internet services
Brilliant Idea Group Limited	Hong Kong	Ordinary HK\$10,000	51	Production, sales and licensing of video movies
Mei Ah (China) Company Limited	Hong Kong	Ordinary HK\$2	100	Investment holding
Mei Ah Edutainment Publishing Limited	Hong Kong	Ordinary HK\$92	100	Distribution of audio visual products

### 30 Group structure — associated companies

At 31st March 2001, 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
Asia Pacific Infotainment Services Limited (formerly known as Mei Ah Cyberworks Corporation Limited)	British Virgin Islands	US\$100	45	Investment holding
M21 Technology Limited (note (a))	Bermuda	HK\$3,125,000	29.25	Investment holding
M21 Mastertech Company Limited (formerly known as Mei Ah Mastertech Company Limited) (note (a))	Hong Kong	HK\$2,000	29.25	Processing of audio visual products
China 10K.com (BVI) Company Limited (note (b))	British Virgin Islands	US\$10,000	41	Investment holding
China Culture Media Group Company Limited (formerly known as China 10K.com Company Limited) (note (b))	Hong Kong	HK\$100	41	Provision of internet content and e-commerce business

### **30 Group structure — associated companies** *(continued)*

*Note*

- (a) M21 Mastertech Company Limited (“M21 Mastertech”) (formerly known as Mei Ah Mastertech Company Limited) became the subsidiary of M21 Technology Limited (“M21 Technology”) pursuant to a reorganisation in relation to the listing of M21 Technology’s shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited in March 2001. Following the reorganisation, the interests of the group in M21 Technology Limited and M21 Mastertech were diluted from 45% to 29.25%.
  
- (b) During the year, China 10K.com (BVI) Limited (“China 10K.com”) issued a total of 323,000 shares to two independent investors. As a result, the interests of the group in China 10K.com and China Culture Media Group Company Limited were diluted from 45% to 41%.

### **31 Approval of accounts**

The accounts were approved by the board of directors on 26th July 2001.

## SUMMARY OF FINANCIAL INFORMATION

### FIVE YEARS SUMMARY

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

	<b>2001</b> <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>	1997 <i>HK\$'000</i>
Turnover	<b><u>205,748</u></b>	<u>192,493</u>	<u>144,532</u>	<u>236,127</u>	<u>192,996</u>
Profit/(loss) attributable to shareholders	<b><u>1,198</u></b>	<u>18,095</u>	<u>(57,290)</u>	<u>(59,014)</u>	<u>17,190</u>
Fixed assets	<b>181,081</b>	143,668	99,606	72,862	82,189
Other assets	<b>139,884</b>	146,361	107,086	101,859	45,900
Net current assets	<b><u>80,665</u></b>	<u>100,302</u>	<u>25,986</u>	<u>123,735</u>	<u>48,559</u>
	<b>401,630</b>	390,331	232,678	298,456	176,648
Long-term liabilities	<b><u>(25,170)</u></b>	<u>(12,186)</u>	<u>(4,464)</u>	<u>(7,088)</u>	<u>(9,494)</u>
Net assets	<b><u>376,460</u></b>	<u>378,145</u>	<u>228,214</u>	<u>291,368</u>	<u>167,154</u>



## SCHEDULE OF PRINCIPAL PROPERTIES

31st March 2001

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%