



Mei Ah Entertainment Group Limited

Interim Report 2001

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## **CORPORATE INFORMATION**

### **Directors**

#### *Executive Directors*

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

#### *Non-Executive Director*

Chan Ngan Piu

#### *Independent Non-Executive Directors*

Lee Man Kwong  
Cheung Kung Tai

### **Company secretary**

Tong Hing Chi

### **Registered office**

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

### **Head office and principal place of business**

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

### **Principal bankers**

The Hongkong & Shanghai Banking  
Corporation Limited  
Bank of China (Hong Kong) Limited

### **Auditors**

PricewaterhouseCoopers  
*Certified Public Accountants*

### **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

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The directors are pleased to present the Group's Interim Report and condensed accounts for the six months ended 30th September 2001. The consolidated profit and loss account, consolidated cash flow statement and statement of recognised gains and losses for the Company, its subsidiaries and associated companies (the "Group") for the six months ended 30th September 2001, and the consolidated balance sheet of the Group as at 30th September 2001, all of which are unaudited and condensed, along with selected explanatory notes, are set out as follows:

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

*For the six months ended 30th September 2001*

		<b>Unaudited six months ended 30th September</b>	
		<b>2001</b>	2000
	<i>Notes</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
Turnover	2	<b>78,616</b>	109,422
Cost of sales		<b>(60,280)</b>	(82,706)
Gross profit		<b>18,336</b>	26,716
Other revenues		<b>7,257</b>	10,260
Other income	3	<b>6,166</b>	6,563
Selling and marketing expenses		<b>(4,285)</b>	(6,789)
Administrative expenses		<b>(21,550)</b>	(18,362)
Other expenses		<b>—</b>	(65)
Operating profit	3	<b>5,924</b>	18,323
Finance costs		<b>(2,162)</b>	(1,913)
Share of loss of a jointly controlled entity		<b>(661)</b>	(791)
Share of profits/(losses) of associated companies		<b>682</b>	(12,246)
Profits before taxation		<b>3,783</b>	3,373
Taxation	4	<b>—</b>	—
Profits attributable to shareholders		<b>3,783</b>	3,373
Basic earnings per share	5	<b>0.49 cents</b>	0.44 cents

No statement of recognised gains and losses is presented as profit after taxation of HK\$3,783,000 (2000: HK\$3,373,000) shown above is the only component.

**CONDENSED CONSOLIDATED BALANCE SHEETS***As at 30th September 2001 and 31st March 2001*

		<b>Unaudited 30th September 2001 HK\$'000</b>	Audited 31st March 2001 HK\$'000
	<i>Notes</i>		
Fixed assets	6	<b>185,538</b>	181,081
Interest in a jointly controlled entity		<b>1,834</b>	2,520
Associated companies		<b>72,572</b>	76,931
Investment securities		<b>6,916</b>	8,189
Film rights and films in progress	7	<b>57,396</b>	52,244
Current assets			
Inventories		<b>16,010</b>	12,993
Film sub-licensing rights and deposits		<b>80,538</b>	77,697
Accounts receivable	8	<b>22,352</b>	20,787
Prepayments, deposits and other receivables		<b>29,318</b>	25,021
Tax recoverable		<b>3</b>	3
Other investments		<b>—</b>	20
Bank balances and cash		<b>1,305</b>	1,544
		<b>149,526</b>	138,065
Current liabilities			
Accounts payable	9	<b>8,857</b>	8,418
Receipts in advance and accruals		<b>20,299</b>	18,653
Bills payable		<b>2,320</b>	1,495
Short-term bank loan, secured		<b>10,000</b>	9,000
Current portion of long-term liabilities	10	<b>5,878</b>	6,058
Bank overdrafts			
— secured		<b>15,844</b>	12,409
— unsecured		<b>1,357</b>	1,367
		<b>64,555</b>	57,400
Net current assets		<b>84,971</b>	80,665
		<b>409,227</b>	401,630
Financed by:			
Share capital	11	<b>77,100</b>	77,112
Reserves	12	<b>303,100</b>	299,348
Shareholders' funds		<b>380,200</b>	376,460
Long-term liabilities		<b>29,027</b>	25,170
		<b>409,227</b>	401,630

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

*For the six months ended 30th September 2001 and 2000*

	<b>Unaudited</b>	
	<b>six months ended</b>	
	<b>30th September</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Net cash inflow from operating activities	<b>13,989</b>	4,738
Net cash outflow from returns on investments and servicing of finance	<b>(2,158)</b>	(1,277)
Taxation refund	—	410
Net cash outflow from investing activities	<b>(19,798)</b>	(49,049)
Net cash outflow before financing	<b>(7,967)</b>	(45,178)
Net cash inflow from financing	<b>3,303</b>	243
Decrease in cash and cash equivalents	<b>(4,664)</b>	(44,935)
Cash and cash equivalents at 1st April	<b>(21,232)</b>	23,770
Cash and cash equivalents at 30th September	<b>(25,896)</b>	(21,165)
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	<b>1,305</b>	225
Bank overdrafts	<b>(17,201)</b>	(11,390)
Bank loan	<b>(10,000)</b>	(10,000)
	<b>(25,896)</b>	(21,165)

## NOTES TO CONDENSED INTERIM ACCOUNTS

### 1 Basis of preparation and accounting policies

These unaudited condensed consolidated interim accounts ("interim accounts") are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25, "Interim Financial Reporting", issued by the Hong Kong Society of Accountants.

These condensed interim accounts should be read in conjunction with the 2001 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31st March 2001 except that the Group has changed certain of its accounting policies following its adoption of the following Statements of Standard Accounting Practice (SSAP's) issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January 2001:

(a) *SSAP 14 (revised) "Leases" (effective for periods commencing on or after 1st July 2000)*

In note 14(b) to these condensed interim accounts the Group has disclosed operating lease commitments under the revised SSAP 14 which requires the disclosure of the aggregate future minimum lease payments. This is a change from the previous SSAP 14 which only required disclosure of the minimum lease payments payable in the next twelve months.

(b) *SSAP 26 "Segment reporting"*

In Note 2 to these condensed interim accounts the Group has disclosed segment revenue and results as defined under SSAP 26. In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format.

No geographical analysis is provided in note 2 to these condensed interim accounts as less than 10% of the consolidated turnover and of the consolidated trading results of the Group are attributable to markets outside Hong Kong.

**1 Basis of preparation and accounting policies** (*cont'd*)

(c) *SSAP30 "Business combinations"*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired associated company at the date of acquisition. Goodwill on acquisitions occurring on or after 1st January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill on acquisitions that occurred prior to 1st January 2001 was written off against reserves. The Group has taken advantage of the transitional provisions in SSAP 30 and such goodwill has not been retroactively capitalised and amortised. However any impairment arising on such goodwill is accounted for in accordance with SSAP 31 "Impairment of assets".

Goodwill arising on major strategic acquisitions of the Group to expand its products or geographical market coverage is amortised over a maximum period of 15 years. For all other acquisitions goodwill is generally amortised over 5 years.

(d) *SSAP 31 "Impairment of assets"*

SSAP 31 prescribes procedures to be applied to ensure that assets are carried at not more than their recoverable amounts. The recoverable amount of an asset is defined to be the higher of its net selling price and its value in use. The Group determines the value in use of its assets, (including fixed assets, goodwill arising on business combinations accounted for using the purchase method and intangible assets) as the present value of estimated future cash flows together with estimated disposal proceeds at the end of its useful life. The Group is required to assess at each balance sheet date whether there are any indications that assets may be impaired, and if there are such indications, the recoverable amount of the assets is to be determined. Any resulting impairment losses identified are charged to the consolidated profit and loss accounts.

**1 Basis of preparation and accounting policies** *(cont'd)*

- (e) *Interpretation 13 "Goodwill — continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"*

In accordance with the provisions of Interpretation 13, assessments of impairment of goodwill also apply to goodwill previously eliminated against reserves which will not be restated at the time of adoption of SSAP 30. Any impairment loss identified in respect of goodwill previously eliminated against reserves is to be recognised as an expense in the consolidated profit and loss accounts.

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current period.

## 2 Turnover and segment information

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

	Unaudited					
	Six months ended 30th September 2001					
	HK\$'000					
	Distribution of films and programs in audio visual product formats	Film exhibition and film rights sub- licensing	Provision of internet and related services	Processing of audio visual products	Others	Group
Revenues	<u>67,158</u>	<u>11,043</u>	<u>232</u>	<u>—</u>	<u>183</u>	<u>78,616</u>
Segments results	<u>13,695</u>	<u>(3,954)</u>	<u>(466)</u>	<u>—</u>	<u>(3,351)</u>	5,924
Finance costs						(2,162)
Share of profits less losses of:						
Jointly controlled entity	(661)	—	—	—	—	(661)
Associated companies	—	—	(1,159)	1,841	—	<u>682</u>
Profit before taxation						3,783
Taxation						<u>—</u>
Profit attributable to shareholders						<u>3,783</u>

**2 Turnover and segment information** (cont'd)

	Unaudited					
	Six months ended 30th September 2000					
	HK\$'000					
	Distribution of films and programs in audio visual product formats	Film exhibition and film rights sub- licensing	Provision of internet and related services	Processing of audio visual products	Others	Group
Revenues	<u>89,742</u>	<u>17,043</u>	<u>2,037</u>	<u>—</u>	<u>600</u>	<u>109,422</u>
Segments results	<u>10,096</u>	<u>989</u>	<u>502</u>	<u>—</u>	<u>6,736</u>	<u>18,323</u>
Finance costs						(1,913)
Share of losses of:						
Jointly controlled entity	(791)	—	—	—	—	(791)
Associated companies	—	—	(10,595)	(1,651)	—	<u>(12,246)</u>
Profit before taxation						3,373
Taxation						<u>—</u>
Profit attributable to shareholders						<u><u>3,373</u></u>

### 3 Operating profit

Operating profit is stated after crediting and charging the following:

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30th September</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Crediting</b>		
Gain on disposal of investment securities	<b>6,166</b>	—
Gain on dilution of interest in an associated company, net of premium on acquisition of additional interest in that associated company prior to the dilution	—	6,563
Interest income	<b>4</b>	636
	<b><u>          </u></b>	<b><u>          </u></b>
<b>Charging</b>		
Amortisation of film rights	<b>8,032</b>	10,268
Depreciation:		
— owned fixed assets	<b>7,304</b>	7,874
— leased fixed assets	<b>179</b>	18
Loss on disposal of fixed assets	<b>40</b>	—
	<b><u>          </u></b>	<b><u>          </u></b>

### 4 Taxation

No provision for Hong Kong and overseas profits tax has been made as there are sufficient tax losses brought forward to set off against the assessable profit for the period.

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

## 5 Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$3,783,000 (2000: HK\$3,373,000) and on the weighted average of 771,073,977 (2000: 771,124,200) 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 30th September 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.

## 6 Fixed assets

	<b>Unaudited 30th September 2001 HK\$'000</b>	Audited 31st March 2001 HK\$'000
Opening net book amount	<b>181,081</b>	143,668
Adjustment on revaluation	—	(4,240)
Additions	<b>11,941</b>	57,398
Disposals	<b>(1)</b>	(16)
Depreciation ( <i>Note 3</i> )	<b>(7,483)</b>	(15,729)
	<b><u>185,538</u></b>	<u>181,081</u>
Closing net book amount	<b>185,538</b>	181,081

**7 Film rights and films in progress**

	<b>Unaudited HK\$'000</b>
<b>Six months ended 30th September 2001</b>	
Opening net book amount, as previously reported	<b>52,244</b>
Additions during the period	<b>13,184</b>
Amortisation charge ( <i>Note 3</i> )	<b>(8,032)</b>
	<u>57,396</u>
Closing net book amount	<b><u>57,396</u></b>
<b>At 30th September 2001</b>	
Cost	<b>258,178</b>
Accumulated amortisation	<b>(200,782)</b>
	<u>57,396</u>
Net book amount	<b><u>57,396</u></b>
<b>At 31st March 2001</b>	
	<i>Audited HK\$'000</i>
Cost	244,994
Accumulated amortisation	(192,750)
	<u>52,244</u>
Net book amount	<b><u>52,244</u></b>

## 8 Accounts receivable

The ageing analysis of accounts receivable is as follows:

	<b>Unaudited 30th September 2001 HK\$'000</b>	Audited 31st March 2001 HK\$'000
Current to 3 months	<b>17,078</b>	18,381
4 to 6 months	<b>2,271</b>	516
Over 6 months	<b>3,003</b>	1,890
	<b><u>22,352</u></b>	<u>20,787</u>

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 information technology and related services are on open account term. Certain balances are covered by customers' deposits placed with the Group.

## 9 Accounts payable

The ageing analysis of accounts payable is as follows:

	<b>Unaudited 30th September 2001 HK\$'000</b>	Audited 31st March 2001 HK\$'000
Current to 3 months	<b>3,354</b>	3,492
4 to 6 months	<b>275</b>	2,141
Over 6 months	<b>5,228</b>	2,785
	<b><u>8,857</u></b>	<u>8,418</u>

**10 Long term liabilities**

	<b>Unaudited 30th September 2001 HK\$'000</b>	Audited 31st March 2001 HK\$'000
Secured bank loans (note (a))	<b>33,931</b>	30,304
Obligations under finance leases (note (b))	<b>974</b>	924
	<b>34,905</b>	31,228
Current portion of long-term liabilities	<b>(5,878)</b>	(6,058)
	<b>29,027</b>	25,170

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

	<b>Unaudited 30th September 2001 HK\$'000</b>	Audited 31st March 2001 HK\$'000
Within one year	<b>5,222</b>	5,516
In the second year	<b>3,542</b>	1,389
In the third to fifth year	<b>10,171</b>	1,001
After the fifth year	<b>14,996</b>	22,398
	<b>28,709</b>	24,788
	<b>33,931</b>	30,304

**10 Long term liabilities** (cont'd)

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

	<b>Unaudited 30th September 2001 HK\$'000</b>	Restated Audited 31st March 2001 HK\$'000
Within one year	<b>656</b>	542
In the second year	<b>224</b>	353
In the third to fifth year inclusive	<b>94</b>	29
	<b>974</b>	924
Future finance charges on finance leases	<b>152</b>	123
Present value of finance lease liabilities	<b>1,126</b>	1,047

The present value of finance lease liabilities is as follows:

Within one year	<b>746</b>	609
In the second year	<b>264</b>	398
In the third to fifth year inclusive	<b>116</b>	40
	<b>1,126</b>	1,047

**11 Share capital**

	<b>Authorised (Ordinary shares of HK\$0.10 each)</b>	
	<i>No. of shares (Thousands)</i>	<i>HK\$'000</i>
At 30th September and 31st March 2001	<u>3,000,000</u>	<u>300,000</u>
	<b>Issued and fully paid (Ordinary shares of HK\$0.10 each)</b>	
	<i>No. of shares (Thousands)</i>	<i>HK\$'000</i>
At 1st October 2000	257,042	25,704
Issue of shares ( <i>note (a)</i> )	<u>514,083</u>	<u>51,408</u>
At 31st March 2001	771,125	77,112
Repurchase of shares ( <i>note (b)</i> )	<u>(125)</u>	<u>(12)</u>
At 30th September 2001	<u>771,000</u>	<u>77,100</u>

(a) On 13th October 2000, the issue share capital of the Company was increased to HK\$77,112,420 by applying HK\$51,408,280 standing to the credit of the share premium account in payment in full at par of 514,082,800 ordinary shares of HK\$0.10 each on the basis of two new ordinary shares for one share held on 28th September 2000. These shares rank *pari passu* in all respect with the existing issued shares.

(b) During the period, 124,200 repurchased ordinary shares of HK\$0.10 each were cancelled.

## 12 Reserves

	Share premium	Contributed surplus	Exchange difference	Investment properties revaluation reserve	Other properties revaluation reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April 2000	274,303	118,620	(306)	4,583	3,329	(48,088)	352,441
Profit for the period	—	—	—	—	—	3,373	3,373
At 30th September 2000	274,303	118,620	(306)	4,583	3,329	(44,715)	355,814
Capitalisation issue	(51,408)	—	—	—	—	—	(51,408)
Issuing expenses	(33)	—	—	—	—	—	(33)
Deficit on revaluation of properties	—	—	—	(350)	(2,500)	—	(2,850)
Loss for the period	—	—	—	—	—	(2,175)	(2,175)
Effect of adopting SSAP 31	—	9,798	—	—	—	(9,798)	—
At 31st March 2001 as restated	<u>222,862</u>	<u>128,418</u>	<u>(306)</u>	<u>4,233</u>	<u>829</u>	<u>(56,688)</u>	<u>299,348</u>
At 1st April 2001 as previously reported	222,862	118,620	(306)	4,233	829	(46,890)	299,348
Effect of adopting SSAP 31	—	9,798	—	—	—	(9,798)	—
At 1st April 2001 as restated	222,862	128,418	(306)	4,233	829	(56,688)	299,348
Repurchase of shares	(31)	—	—	—	—	—	(31)
Profit for the period	—	—	—	—	—	3,783	3,783
At 30th September 2001	<u>222,831</u>	<u>128,418</u>	<u>(306)</u>	<u>4,233</u>	<u>829</u>	<u>(52,905)</u>	<u>303,100</u>

**12 Reserves (cont'd)**

The following table summarises the effect on net profit for the six months ended 30th September 2000 and for the year ended 31st March 2001 resulting from the Group's adoption of the new accounting standards:

	<b>Restated</b> Twelve months ended 31st March 2001 Net profit/(loss) <i>HK\$'000</i>	Unaudited Six months ended 30th September 2000 Net profit <i>HK\$'000</i>
<b>Profit for the periods as previously reported</b>	<b>1,198</b>	<b>3,373</b>
Impairment of goodwill recognised upon the adoption of SSAP 31	<u>(9,798)</u>	<u>—</u>
<b>Profit for the periods as retrospectively restated</b>	<b>(8,600)</b>	<b>3,373</b>
<b>Basic (loss)/earnings per share:</b>		
As previously reported	0.2 cents	1.31 cents
As retrospectively restated	(1.12 cents)	0.44 cents

**13 Contingent liabilities**

	<b>Group</b>		<b>Company</b>	
	<b>30th September 2001 <i>HK\$'000</i></b>	31st March 2001 <i>HK\$'000</i>	<b>30th September 2001 <i>HK\$'000</i></b>	31st March 2001 <i>HK\$'000</i>
Guarantee given to banks in respect of utilised banking facilities of:				
Subsidiaries	—	—	<b>55,230</b>	51,454
Associated companies	<b>1,940</b>	2,997	<b>1,940</b>	2,997
	<u><b>1,940</b></u>	<u>2,997</u>	<u><b>57,170</b></u>	<u>54,451</u>

## 14 Commitments

- (a) As at 30th September 2001, the Group had capital and financial commitments not provided for in these financial statements as follows:

	<b>Unaudited 30th September 2001 HK\$'000</b>	Audited 31st March 2001 HK\$'000
(i) Capital commitment for property, plant and machinery	<u>—</u>	<u>2,570</u>
(ii) Capital commitment in respect of land and properties under development	<u><b>18,993</b></u>	<u>21,871</u>
(iii) Other commitments in respect of		
— film production	<u><b>26,046</b></u>	<u>26,780</u>
— film licensing agreements	<u><b>24,294</b></u>	<u>25,333</u>
	<u><b>50,340</b></u>	<u>52,113</u>

- (b) As at 30th September 2001, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	<b>Unaudited 30th September 2001 HK\$'000</b>	Audited 31st March 2001 HK\$'000
Operating lease which expire:		
— within one year	<u><b>118</b></u>	<u>272</u>

## 15 Related party transactions

Significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

		<b>Unaudited six months ended 30th September</b>	
		<b>2001</b>	2000
	<i>Note</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
Replication fee paid to associated company	(a)	<b>33,091</b>	40,214
Interest income from associated company		—	384
Origination fee received from associated companies	(b)	<b>41</b>	294
Rental income from associated companies	(c)	<b>6,300</b>	6,950
Website development and web hosting fees from an associated company	(d)	<b>37</b>	1,855
Sales of goods to an associated company	(e)	<b>614</b>	2,484
		<b><u>614</u></b>	<b><u>2,484</u></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) 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.
- (c) Rental income from leasing of certain plant and machinery to certain associated companies was determined on a cost reimbursement basis.

**15 Related party transactions** *(cont'd)*

- (d) Website development and web hosting fees received from an associated company were determined in accordance with the relevant service agreements.
- (e) Sales 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL HIGHLIGHTS

	<b>Unaudited</b>		
	<b>six months ended</b>		
	<b>30th September</b>		
	<b>2001</b>	2000	Change
	<b>HK\$'000</b>	HK\$'000	
Turnover	<b>78,616</b>	109,422	-28.2%
Operating Profit	<b>5,924</b>	18,323	-67.7%
Profit Attributable to			
Shareholders	<b>3,783</b>	3,373	+ 12.2%
Basic Earnings per Share	<b>0.49 cents</b>	0.44 cents	-11.4%

### OVERVIEW OF THE GROUP

During the period under review, the Group has been operating under an economic recession as based on the definition of two consecutive quarters of negative growth in GDP, turnover has fallen by approximately 28% when comparing with the same period of last year.

Despite of the price discounts which had created heavy pressure on the Group's gross profit margin, the general deflation and the Group's continual efforts in cost control helped upholding the Group's gross profit margin at a similar level of last period.

The Group's long term equity interest in Era Information & Entertainment Limited ("ERA"), a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 28th June 2001, was realized in the current period and had contributed gain of HK\$6,166,000 to the Group.

Irrespective of the bleak outlook and difficult operating environment, the Group has achieved a 12% growth in profit attributable to shareholders during the period under review.

### **PROSPECTS — POSITION FOR NEW CHALLENGES**

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

Firstly, China's entry into the World Trade Organization ("WTO") will provide 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 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.

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 (31st March 2001: HK\$83,274,000) of which 76.2% (31st March 2001: 65.5%) has been utilized as at 30th September 2001 to finance its normal trading operations.

At 30th September 2001, the trade receivables amounting to HK\$22,352,000, represented a 7.5% increase as compared to the balance at 31st March 2001 which is mainly due to granting of extra credit period to several long term customers whereas inventories increased by 23.2% as compared to the balance as at 31st March 2001 were primarily due to the sudden downturn of worldwide consumer spending sentiment after the attack of the US World Trade Center on 11th September 2001 and inventories at the period end date piled up accordingly.

At 30th September 2001, total secured bank borrowings of the Group which are denominated in HK Dollars amounted to HK\$43,931,000 (31st March 2001: HK\$39,304,000), out of which, HK\$15,222,000 (31st March 2001: HK\$14,516,000) are repayable within one year, HK\$13,713,000 (31st March 2001: HK\$2,390,000) in the second to the fifth years and the remaining balance of HK\$14,996,000 (31st March 2001: HK\$22,398,000) are repayable after the fifth year following the period under review.

The Group's gearing ratio at the period end was 0.116 (31st March 2001: 0.104) which was calculated based on the total bank loans of HK\$43,931,000 (31st March 2001: HK\$39,304,000) and shareholders' funds of HK\$380,200,000 (31st March 2001: HK\$376,460,000).

## **FINANCIAL RISK MANAGEMENT**

In the normal course of business, the Group has no significant exposure to foreign exchange fluctuations as the Group's borrowings, turnover and purchases streams are primarily denominated in Hong Kong dollars.

Payment terms with customers are largely on credit. In order to minimize the credit risks associated with the trade receivables, credit evaluations of debtors are performed periodically and in some instances, where appropriate, corporate or personal guarantee is obtained. The bad debt has been insignificant.

## **MATERIAL INVESTMENT OF THE GROUP**

During the six months ended 30th September 2001, the Group invested HK\$12 million in fixed assets. The expenditure in the period was mainly spent in the construction of the Group's headquarter and factory in Tseung Kwan O, namely the Mei Ah Group Centre. The Group's projected expenditure for the remainder of the year is about HK\$18 million, which is mainly for the final completion of the superstructure of the Mei Ah Group Centre and the fitting out works. This will be financed partly by internal resources and partly by long-term bank borrowings at Hong Kong prime rate that the Group had arranged with the bankers.

## **NUMBER AND REMUNERATION OF EMPLOYEES**

Including the directors of the Group, as at 30th September 2001, the Group employed a total of 97 (30th September 2000: 99) full-time employees. Remuneration is reviewed annually and certain staffs are entitled to commission. In addition to the basic salaries, the Group also provides staff benefits including discretionary bonus, medical insurance scheme and contributory provident fund.

## **DETAILS OF THE CHARGES ON GROUP ASSETS**

Banking facilities granted by banks to the Group are secured by the following:

- (a) legal charges over certain properties and plant and machinery held by the Group
- (b) corporate guarantees executed by the Company; and
- (c) 30 million shares of the Company held by Kuo Hsing Holdings Limited

**OTHER DISCLOSURES****INTERIM DIVIDEND**

The directors do not recommend the payment of an interim dividend.

**DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES**

As at 30 September 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\$0.10 each**

<b>Name of director</b>	<b>Number of shares beneficially held</b>		
	<b>Personal interest</b>	<b>Family interest</b>	<b>Corporate interest</b>
Mr LI Kuo Hsing	9,937,500	37,968,750 <i>Note (a)</i>	374,609,510 <i>Note (b)</i>
Mr TONG Hing Chi	3,375,000	—	—
Mr CHAN Ngan Piu	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.

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 and its associated corporations (within the meaning of the SDI Ordinance) which had been entered in the register kept by the Company pursuant to Section 29 of the SDI Ordinance.

## **(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\$0.10 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\$0.10 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 in October 2000.

No such Share Options were exercised during the period. As at 30th September 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 period 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 30th September 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.

#### **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 period.

#### **AUDIT COMMITTEE**

An Audit Committee has been established on 8th December 1999 to act in an advisory capacity and make recommendations to the Board of Directors. Its members currently included the two independent non-executive directors, namely Mr LEE Man Kwong and Mr CHEUNG Kung Tai.

The Audit Committee has reviewed with management the accounting principles and practices adapted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the unaudited interim accounts for the six months ended 30th September 2001.

### **CODE OF BEST PRACTICE**

None of the directors of the Company is aware of any information which would indicate that the Group is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 of in the Listing Rules of The Stock Exchange of Hong Kong Limited at any time during the six months ended 30th September 2001, except that the non-executive directors are not appointed for a specific term. The non-executive directors are subjected to retirement by rotation and re-election at the annual general meeting in accordance with the Company's Bye-laws. In the opinion of the directors, this meets the same objective as the Code of Best Practice.

### **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

### **PUBLICATION OF INTERIM RESULTS ON THE WEBSITE OF STOCK EXCHANGE**

Information that is required by paragraph 45(1) to 45(3) of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") will be published on the website of the Stock Exchange at <http://www.hkex.com.hk> in due course.

By the Order of the Board  
**Li Kuo Hsing**  
*Chairman*

Hong Kong, 20th December 2001