

The board (the "Board") of directors (the "Directors") of Matsunichi Communication Holdings Limited (the "Company") submits the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th September, 2002.

MANAGEMENT DISCUSSION AND ANALYSIS

Matsunichi Communication Holdings Limited is an investment holding company with its operating subsidiaries principally engaged in trading and retailing of consumer products and trading of glass eels.

For the six months ended 30th September, 2002 (the "Period"), the Group achieved a turnover of HK\$241,026,000 (2001: HK\$237,173,000) and a loss of HK\$24,815,000 (2001: HK\$26,446,000), representing an increase of 2% in turnover and a decrease of 6% in loss attributable to shareholders as compared to the last corresponding period.

OPERATION REVIEW

Publishing and printing

On 22nd July, 2002, the Group disposed of its newspaper and magazine publishing and offset printing business operating under Island Gold Developments Limited and its subsidiaries (collectively "Island Gold Group") pursuant to a sale and purchase agreement dated 10th June, 2002 entered into between Emperor International Holdings Limited and the Company. The sale proceeds from the disposal of Island Gold Group was applied for the working capital of the Group and used to finance the Group's future investments. Details of the transaction were disclosed in the circular of the Company dated 29th June, 2002.

During the period under review and prior to the disposal of Island Gold Group, the publishing and printing business generated approximately HK\$143,425,000 (2001: HK\$135,673,000) turnover and HK\$10,026,000 (2001: HK\$27,119,000) operating loss to the Group respectively.

The disposal of Island Gold Group enabled the Group to realize its investment in the publishing and printing operations. It also provided a good opportunity to rationalize its business and to allocate its resources for future investment opportunities.

Apparel trading and retailing

The Group's apparel trading and retailing business is mainly operating under two well-known French labels, namely "Balenciaga" and "Smalto".

During the Period, the Group faced a sluggish environment of Hong Kong apparel retailing market. The continued economic slowdown has weakened the consumer market of Hong Kong. To sustain its turnover, the Group had to offer deep change-of-the-season discounts and take various measures to streamline its operation and maintain its competitive edge. In view of the uncertainty of the retailing market, the Group had made appropriate provision in its apparel inventory.

Trading of marine products

Despite a stable turnover of the Group's fishery and marine products trading business, the profitability has been adversely affected by the economic downtown of Hong Kong. The management has decided to trim down the operation of trading marine products by closing down its wholesale and retail business, thereby concentrating only on trading of glass eels products. The management expects that the performance of the trading business will be improved in the second half of the financial year.

PROSPECTS

With the change of the Composition of the Board of Directors in July 2002, the Company is seeking for new business opportunities for the long term development of the Group with the intention to broaden the revenue base of the Group and offer satisfactory returns to its shareholders.

In November 2002, the Group has taken a strategic move and deployed resources in the trading and retailing of MP3 player products in the PRC and Hong Kong. The Group has engaged in a series of advertising campaign to promote its MP3 player products under the brand name "Matsunichi".

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On 4th December, 2002, the Company has also entered into a conditional agreement for acquisition of the 100% issued share capital of Dalian Meca Web Communication Limited ("Meca"), which is fully equipped to manufacture high technology consumer electronic products in Dalian of the PRC. The Group intends to capitalize on the expertise of Mr. Pan Su Tong, the ultimate controlling shareholder of the Company to produce its MP3 player products on a mass scale.

The Board is confident that the MP3 players will be well received by the market and the acquisition of Meca will make positive contribution to the overall earnings of the Group.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the Period (2001: Nil).

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated resources and banking facilities granted by its principal bankers in Hong Kong. As at 30th September, 2002, the Group had a gearing ratio of 0.76 (calculated on the basis of Group's bank borrowings over shareholders' fund). The Group's cash and bank balances increased significantly to HK\$123,607,000 (31st March, 2002: HK\$11,472,000) which was mainly as a result of the net proceed obtained from the disposal of its investment in Island Gold Group.

The Group's bank borrowings, bank balances and cash were mainly denominated in Hong Kong Dollars and the interest of the bank borrowings were at prevailing market rates. The Directors considered that the Group had no significant exposure to foreign exchange fluctuations and had no material contingent liabilities at the reporting date.

On 17th October, 2002, the Company issued 117,800,000 new shares ("Placing shares") of the Company at a price of HK\$0.20 per share through a placement and subscription agreements, representing approximately 20% of the issued share capital of the Company of 589,257,804 shares prior to placement and subscription ("Placement and Subscription"). Details of the Placement and Subscription were disclosed in the announcement of the Company on 4th October, 2002.

The Directors considered that the Placement and Subscription represents a good opportunity to raise working capital for the Company. The Placement and Subscription has broadened shareholders' base of the Company, and provided cash inflow to strengthen the financial position of the Company for its diversification in business.

STAFF COSTS

The total staff cost incurred for the period under review including directors' emoluments amounted to HK\$32 million (2001: HK\$81 million). The decrease was due to the disposal of the printing and publishing business in July 2002. The number of staff was approximately 120 as at the reporting date. All employees were under the remuneration policy of fixed monthly salary with commission and discretionary bonus.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN EQUITY

At 30th September, 2002, according to the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), none of the Directors, chief executive or their associates had any interest in the securities of the Company and its associated corporations, other than those of the substantial shareholders as disclosed below.

SUBSTANTIAL SHAREHOLDERS

At 30th September, 2002, according to the register kept by the Company under Section 16(1) of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), the following parties had notified the Company that they were interested in 10% or more of the issued share capital of the Company:

Name of persons	<i>Notes</i>	Number of shares interested or deemed to be interested	Percentage of shareholding
Goldstream Group Limited	1	205,905,721	34.94%
Jade Forest Limited	1 & 2	403,287,755	68.44%
Pan Su Tong (Director)	1 & 2	403,287,755	68.44%

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Note 1: Goldstream Group Limited is a wholly-owned subsidiary of Jade Forest Limited which is wholly owned by Mr. Pan Su Tong. Accordingly, Jade Forest Limited and Mr. Pan Su Tong are deemed to be interested in the 205,905,721 shares held by Goldstream Group Limited.

Note 2: The 403,287,755 shares include the 205,905,721 shares held by Goldstream Group Limited and 197,382,034 shares held by Jade Forest Limited. Mr. Pan Su Tong is also deemed to be interested in the 403,287,755 shares.

Apart from the foregoing as at 30th September, 2002, no person or corporation had any interest in the shares of the Company as recorded in the register required to be kept under Section 16(1) of the SDI Ordinance as having an interest in 10% or more of the issued shares of the Company.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Period, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the Period, in compliance with the Best Practice as set out in Appendix 14 of the Rules Governing the listing of Securities of the Stock Exchange of Hong Kong Limited.

AUDIT COMMITTEE

The Audit Committee of the Company comprises two independent non-executive directors. The Audit Committee has reviewed and confirmed the unaudited interim results announcement and report for the six months ended 30th September, 2002.

On behalf of the Board

Pan Su Tong

Chairman

Hong Kong, 23rd December, 2002