

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2004

**1. BASIS OF PREPARATION**

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice No. ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

**2. PRINCIPAL ACCOUNTING POLICIES**

The condensed financial statements have been prepared under the historical cost convention.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual audited financial statements for the year ended 31st March, 2004.

**3. SEGMENT INFORMATION**

The Group currently has one business segment of development and sale of digital consumer products. In prior period, the Group was also involved in the apparel trading operations which was discontinued since 26th September, 2003, the date on which the Group disposed the entire equity interests in Hamlet Profits Limited and its subsidiaries. The Directors considered that the geographical segments by market, irrespective of the origin of the goods/services, is the primary segment.

**Primary reporting segment – geographical segments**  
**Six months ended 30th September, 2004**

	The USA HK\$ '000	Other regions in the PRC HK\$ '000	Hong Kong HK\$ '000	Other regions HK\$ '000	Consolidated HK\$ '000
Turnover					
External sales	<u>705,974</u>	<u>85,840</u>	<u>11,273</u>	<u>14,100</u>	<u>817,187</u>
Segment results	<u>129,604</u>	<u>9,505</u>	<u>1,250</u>	<u>2,935</u>	143,294
Interest income					1,285
Interest expenses					(4,896)
Unallocated corporate expenses					<u>(5,200)</u>
Profit before taxation					<u>134,483</u>

## Six months ended 30th September, 2003

	The USA <i>HK\$'000</i>	Other regions in the PRC <i>HK\$'000</i>	Hong Kong <i>HK\$'000</i>	Other regions <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover					
External sales	<u>81,726</u>	<u>111,159</u>	<u>28,894</u>	<u>–</u>	<u>221,779</u>
Segment results	<u>10,716</u>	<u>17,223</u>	<u>(7,252)</u>	<u>–</u>	20,687
Interest income					5
Interest expenses					(1,184)
Unallocated corporate expenses					(2,883)
Gain on disposal of subsidiaries					<u>9,215</u>
Profit before taxation					<u>25,840</u>

## Secondary reporting segment – business segments

An analysis of the Group's turnover by business segments is as follows:

	Six months ended	
	30.9.2004 (unaudited) <i>HK\$'000</i>	30.9.2003 (unaudited) <i>HK\$'000</i>
Turnover:		
<u>Continuing operations</u>		
Development and sale of digital consumer products	817,187	178,955
<u>Discontinued operations</u>		
Apparel trading	–	42,824
	<u>817,187</u>	<u>221,779</u>

**4. PROFIT BEFORE TAXATION**

	Six months ended	
	30.9.2004	30.9.2003
	(unaudited)	(unaudited)
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Profit before taxation has been arrived at after charging:		
Depreciation and amortisation of property, plant and equipment	12,501	2,824
Interest on:		
Bank borrowings wholly repayable within five years	4,187	863
Other borrowings wholly repayable within five years	–	240
Finance leases	749	81
	<u>17,437</u>	<u>3,908</u>

**5. TAXATION**

	Six months ended	
	30.9.2004	30.9.2003
	(unaudited)	(unaudited)
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
The charge comprises:		
Current tax:		
Hong Kong Profits Tax	15,579	–
Deferred tax	109	–
	<u>15,688</u>	<u>–</u>
Taxation attributable to the Company and its subsidiaries	<u>15,688</u>	<u>–</u>

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the period. No provision for Hong Kong Profits Tax had been made in prior period as there were no assessable profits in that period. Taxation arising in other countries or regions in the PRC is calculated at the rates prevailing in the relevant jurisdictions.

**6. DIVIDENDS**

The Directors do not recommend the payment of an interim dividend for the six months ended 30th September, 2004 (2003: Nil).

## 7. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share are based on the following data:

	Six months ended	
	30.9.2004 (unaudited) HK\$'000	30.9.2003 (unaudited) HK\$'000
<u>Earnings</u>		
Profit for the purpose of basic and diluted earnings per share	<u>134,483</u>	<u>25,840</u>
	Number of shares	
	30.9.2004	30.9.2003
<u>Number of shares</u>		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<u>509,086,863</u>	168,266,218
Effect of dilutive share option	<u>4,573,462</u>	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>513,660,325</u>	<u>168,266,218</u>

No diluted earnings per share for 2003 as there were no dilutive potential ordinary shares outstanding in that period.

## 8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of approximately HK\$41,718,000 (six months ended 30.9.2003: HK\$81,377,000) and also disposed of property, plant and equipment with aggregate net book value of approximately HK\$1,062,000 (six months ended 30.9.2003: HK\$1,245,000).

**9. TRADE AND OTHER RECEIVABLES**

The Group currently allows credit periods ranging from 30 days to 90 days to its trade customers.

The following is an aged analysis of trade receivables at the reporting date:

	<b>30.9.2004</b> <b>(unaudited)</b> <i>HK\$'000</i>	31.3.2004 (audited) <i>HK\$'000</i>
0 - 30 days	222,762	35,246
31 - 90 days	284,397	124,216
91 - 180 days	2,104	29,282
Over 180 days	–	275
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Other receivables	509,263	189,019
	138,835	38,175
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	<b>648,098</b>	<b>227,194</b>
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**10. TRADE AND OTHER PAYABLES**

The following is an aged analysis of trade payables at the reporting date:

	<b>30.9.2004</b> <b>(unaudited)</b> <i>HK\$'000</i>	31.3.2004 (audited) <i>HK\$'000</i>
0 - 90 days	30,670	17,150
91 - 180 days	39,115	3,895
Over 180 days	9,387	1,550
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Other payables	79,172	22,595
	87,441	45,114
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	<b>166,613</b>	<b>67,709</b>
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**11. AMOUNT DUE TO A RELATED COMPANY**

The amount represented amount due to Matsunichi Communications (Hong Kong) Limited of which Mr. Pan Su Tong, a director of the Company, is the ultimate shareholder and a director. The amount is unsecured and interest free and will be repayable upon completion of due registration of the title of the plant, with net book value of approximately HK\$76,246,000 at 30th September, 2004 (at 31st March, 2004: HK\$78,000,000) included in the property, plant and equipment, in the name of Best Concord Group Limited, a wholly owned subsidiary of the Company.

**12. BANK BORROWINGS**

During the period, the Group obtained new bank loans and trust receipt and import loans amounting to approximately HK\$521,863,000 and repaid loans amounting to approximately HK\$277,724,000. The loans bear interest at prevailing market rates and are repayable within one year. They were used to finance the Group's working capital and trade activities.

**13. SHARE CAPITAL**

Ordinary shares of HK\$0.05 each

	Number of shares	Amount HK\$'000
Authorised:		
At 1st April, 2004 and 30th September, 2004	<u>10,000,000,000</u>	<u>500,000</u>
Issued and fully paid:		
At 1st April, 2004 and 30th September, 2004	<u>509,086,683</u>	<u>25,454</u>

**14. COMMITMENTS**

	30.9.2004 (unaudited) HK\$'000	31.3.2004 (audited) HK\$'000
Capital expenditure, contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	<u>-</u>	<u>1,176</u>

**15. CONTINGENT LIABILITIES**

	<b>30.9.2004</b> <b>(unaudited)</b> <b>HK\$'000</b>	31.3.2004 (audited) HK\$'000
Bills discounted with recourse	<b>4,161</b>	–

**16. POST BALANCE SHEET EVENT**

On 9th November, 2004, the Group entered into two purchase agreements to acquire the trademarks, service marks, logos and commercial symbols of "Matsunichi" with Matsunichi International Holdings Limited ("MIHL") or/and Guangdong Matsunichi Electronics Limited ("GME"), Guangdong Matsunichi Communication Technology Company Limited ("GMCT") and others, in which Mr. Pan Su Tong, a director of the Company, has beneficial interests in MIHL, GME and GMCT, at a consideration of HK\$210,000,000. The consideration will be satisfied by cash of HK\$20,000,000 and issue of 95,000,000 new ordinary shares of HK\$0.05 each credited as fully paid at a price of HK\$2 each. The transaction has not been completed up to the date of this report.

**17. RELATED PARTY TRANSACTIONS**

During the six months ended 30th September 2004, the Group paid rental charges of HK\$222,000 (2003: Nil) to Matsunichi Properties Holdings (HK) Limited, a company in which Mr. Pan Su Tong was a beneficial interest.