

OPERATING RESULTS

For the year ended 31st March, 2005, the Group recorded turnover amounting to HK\$1,704 million (2004: HK\$613 million), achieving year-on-year growth of 178%. Gross profit soared to HK\$401 million from the previous year's figure of HK\$169 million, while net profit for the year reached HK\$202 million, compared with HK\$71 million for the 2003/2004 financial year. The hugely improved performance was mainly due to impressive growth in the overseas ODM market over the year, a much expanded product range, as well as the opening up of significant new markets in China, Taiwan and South East Asia for the Group's popular own-brand products.

During the year under review, the Group lowered the blended average selling price of its products in response to a drop in component prices, particularly flash memory chips, resulting in a decrease in its gross profit margin to 24% (2004: 27%). The substantial increase in the Group's overseas ODM business accounted for a larger portion of turnover than the OBM business when compared with the previous year and as such dragged down the blended average selling price and the price pressure on flash MP3s worsened the number still. However, by implementing stringent cost control measures, achieving economies of scale in response to larger production orders, and launching new products with higher profit margins, the Group's net profit margin was maintained at 12% as the previous year.

MARKETS

The Group's core Asia markets consist of China, Hong Kong and Taiwan; China alone accounts for 37% of the Group's total revenue. Over the year, the Group devoted a great deal of effort to promoting the Group's brand recognition in China, where all the Group's sales are of own-brand products.

During the year, the Group entered into agreements to acquire the sole ownership of the Matsunichi Brand name and Trade marks from Matsunichi International Holdings Limited ("MIHL"). Mr. Pan Su Tong, Chairman of the Group, has beneficial interests in MIHL and therefore, the acquisition constitute connected transactions under the Listing Rules, details of which were announced on 9th November, 2004. Prior to the acquisition, at an aggregate nominal fee of HK\$2 per annum, the Group was

經營業績

截至二零零五年三月三十一日止年度，本集團錄得之營業額為1,704,000,000港元（二零零四年：613,000,000港元），按年增長為178%。毛利由去年169,000,000港元增加至401,000,000港元。本年度之溢利淨額達202,000,000港元，而二零零三／二零零四財政年度則為71,000,000港元。表現大幅改善，主要是由於年內之海外原創設計製造(ODM)市場發展蓬勃，產品系列大力擴充，以及於中國、台灣及東南亞為本集團深受歡迎之本身品牌產品開拓多個主要新市場所致。

於回顧年度，本集團因元件（尤其快閃記憶體晶片）價格下跌而調低其產品之綜合平均售價，導致其毛利率減少至24%（二零零四年：27%）。本集團之海外原創設計製造(ODM)業務大幅增加，與去年相比，所帶來之營業額較原創品牌製造(OBM)業務為高。因此拖累整體平均售價，而快閃MP3播放機之價格壓力亦減低該數字。然而，透過實施嚴謹之成本控制措施，因應生產訂單增加而提高經濟規模，以及推出毛利率較高之新產品，本集團之淨溢利率維持於去年之12%水平。

市場

本集團之核心亞洲市場包括中國、香港及台灣；單是中國已佔本集團收益總額之37%。由於本集團於中國所銷售之產品均為本身品牌產品，因此，本集團於年內投放大量資源於中國提高本集團之品牌知名度。

年內，本集團訂立協議，向松日國際集團有限公司（「松日國際集團」）收購松日品牌名稱及商標之獨家擁有權。本集團主席潘蘇通先生於松日國際集團中擁有實益權益，因此，根據上市規則，該項收購構成關連交易之有關詳情已於二零零四年十一月九日公佈。並於收購前，本集團根據於二零零五年十月三十一日屆滿之授權契據，以每年2港元之象徵式費用總額獲

granted the non-exclusive use of the Trade marks under the Licence Deeds which would expire on 31st October, 2005. As the Trade marks are crucial to the business of the Group, the Board believes it is in the long term interest of the Group to acquire their full ownership and exclusive use, especially as the Group intends to launch new products bearing the Trade marks in 2005. This acquisition is also important in the context of the booming China market, where the Group will be able to capitalize the brand equity of "Matsunichi" fully.

The Group has also begun to move outside its three core Asian markets to tap into growing demand for digital products in other South Asian and Asia Pacific countries. It is already selling own-brand products in Thailand, for example, and plans to continue this process of expansion, taking in new markets including Australia, New Zealand, Singapore, Vietnam and Malaysia in the coming year. Diversification across these regional markets is an important goal for the Group.

During the year the Group continued its expansion into the European and US markets. The Group set up a subsidiary and warehouse last year in Germany with the aim of penetrating the European market. Germany is the biggest market in continental Europe, but in addition a number of German chain stores have branches and subsidiaries throughout Europe, offering the Group rapid exposure in countries such as France, Spain and Italy, and in Eastern Europe.

From this base, the Group has been working to increase its European market share for both its ODM and OBM businesses. Its efforts are rapidly bearing fruit, with revenue contributed by European sales rising rapidly over the second half of the year. With the Group's products finding strong markets in Germany and beyond, management expects further powerful growth as digital products continue to move into the consumer mainstream. The success of the Group's products over the year was also helped by the strong Euro, giving European consumers excellent buying power.

授商標之獨家使用權。由於商標對本集團業務具有關鍵影響，故董事會認為，收購商標之全面擁有權及獨家使用權，符合本集團之長期利益，尤其本集團計劃於二零零五年推出印有商標之新產品。考慮到本集團將可於發展蓬勃之中國市場充份發揮「松日」之品牌權益，此項收購更形重要。

除上述三個核心亞洲市場，本集團已開始進軍對數碼產品需求較高之其他南亞及亞太國家。例如本集團現時已於泰國銷售本身品牌之產品，並計劃來年繼續擴充至新市場，包括澳洲、紐西蘭、新加坡、越南及馬來西亞。多元化發展該等地區市場為本集團之主要目標。

年內，本集團繼續擴充至歐美市場。本集團去年於德國開設附屬公司及貨倉，務求打入歐洲市場。德國為歐洲大陸之最大市場。此外，多間德國連鎖式商店在歐洲各地均設有分公司及附屬公司，有利本集團提供機會迅速進軍法國、西班牙、意大利及東歐各地之市場。

按照此基礎，本集團已致力提高其原創設計製造(ODM)及原創品牌製造(OBM)業務在歐洲市場之佔有率。本集團之努力瞬即獲得成果，來自歐洲銷售之收益在下半年度急劇上升。隨著本集團產品成功打入德國及其他龐大市場，數碼產品亦逐漸消費主流，管理層預期會取得進一步之增長。年內本集團產品之成功，亦有賴強勁的歐元走勢，令歐洲消費者擁有更高購買能力。

ODM AND OBM BUSINESSES

Leveraging its robust research and development capabilities and huge production capacity, the Group has performed extremely well in its ODM and OBM businesses. The Group achieved record ODM sales in the US market during the year, with its USB memory storage devices proving extremely popular, both in flash and hard-disk models. Strong US economic growth helped sales, and led to the Group's revenue from the US increasing 238% on a year-on-year basis. The Group has also established a small OBM presence in the US, selling its MP3s through a few smaller-scale national channels. This will shortly change, however. The Group's OBM plans for the US are described further in the Prospects section of this report.

During the year, the Group also channeled resources into strongly marketing its ODM services in Europe following the establishment of its German subsidiary and warehouse. An aggressive sales team promotes the Group's products on the basis of high quality and original design capabilities, including the ability to custom-make products to suit customer requirements. ODM products are also promoted on the basis of the reliable after-sales service offered by the Group, and the Group's ability to fulfil large quantity orders within short lead time due to its large production capacity and advanced facilities.

The Group is very optimistic about the opportunities for its OBM business in its new US and European markets. Utilizing an advertising and promotion expense of HK\$28 million over the year, much of the Group's OBM focus outside Asia was turned on exploiting the potential of the European market, with its own-brand products being distributed through German retail chains.

The Group's acquisition of the previously rented plant and land in Dalian for RMB\$38.6 million in the first half of the financial year was its major capital expenditure item in the year under review. The permanent establishment has increased the Group's total asset and was in line with the Group policy in securing the ownership of the production plant site.

原創設計製造(ODM)及原創品牌製造(OBM)業務

由於其超卓研發能力及龐大生產力，本集團在原創設計製造(ODM)及原創品牌製造(OBM)業務均表現出色。本集團年內於美國市場創下原創設計製造(ODM)銷售額之新高，其快閃及硬碟型號之USB記憶體儲存裝置均廣受歡迎。美國之強勁經濟增長有助銷售，帶動本集團於美國市場收益按年增長238%。本集團亦已於美國開展小型原創品牌製造(OBM)業務，透過若干規模較小之全國性渠道銷售MP3播放機。然而，此銷售模式將於短期內更改。有關本集團之美國原創品牌製造(OBM)業務計劃之詳情，請參閱本報告「展望」一節。

年內，於開設德國附屬公司及貨倉後，本集團亦於歐洲投入資源以大力推廣其原創設計製造(ODM)服務。積極進取之市場推廣隊伍以高品質及原創設計能力（包括特別訂造產品以配合顧客要求之能力）推銷本集團產品。原創設計製造(ODM)產品亦以本集團所提供之可靠售後服務，以及本集團因其高生產力及先進設施而可在較短之交貨期內應付大量訂單作宣傳。

本集團對於在新歐美市場發展原創品牌製造(OBM)業務之商機抱樂觀態度。年內共動用廣告及宣傳開支28,000,000港元，本集團亞洲以外之大部分原創品牌製造(OBM)業務，已轉為發掘歐洲市場之潛力，透過德國連鎖式零售店分銷本身品牌產品。

本集團於上半年度以人民幣38,600,000元購入大連市以往租用之廠房及土地，此乃本集團於回顧年度內之主要資本性開支。此項永久建設已增加本集團之資產總值，並符合本集團以獲得生產廠房用地擁有權之政策。

PRODUCTS

The Group's two core product lines are MP3 players and portable memory products, of which MP3 products account for a larger percentage of overall revenue than do memory products. Over the year, the Group has continued to develop and launch new models of both product types, building up a wide portfolio. For example, it has begun to expand into the production of hard-disk MP3 products, and has launched new models. In the US, it launched first its 1-inch memory products and, later higher-capacity 1.8-inch models designed for professional users.

The Group is also continually developing new multi-functional products which are typically able to command higher profit margins. In addition, volume growth is boosting revenues, and not simply in terms of increasing sales. The growth in volume has also led to improved economies of scale for the Group, as well as a greater ability to negotiate the most favorable terms with suppliers.

ENVIRONMENT

The Group is positioning itself as a business firmly committed to environmental improvement. This is important for the Group from a purely economic view, as new stringent environmental requirements for electronic components used in the European market, such as the Waste Electrical and Electronic Equipment (WEEE) Directives and the Restriction of the use of certain Hazardous Substances in Electrical and Electronic Equipment (ROHS) Directives, will be effective from next year. The Group is going beyond this however, not simply complying with the regulations but positioning itself as a truly environmentally-conscious manufacturer committed to creating "green factory" operations. In Hong Kong, for example, the Group has been an enthusiastic supporter of the Government's Rechargeable Battery Recycling Programme, designed to remove these batteries from the waste stream and recover the minerals and metals in them.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

In January 2005, 80 million new shares were issued and allotted to Mr. Pan Su Tong, Chairman of the Group, as part of the consideration for the acquisition of the Trade Marks pursuant to the agreements the Group entered into with MIHL as referred to

產品

本集團之兩項核心產品為MP3播放機及手提式記憶體產品，其中MP3產品佔整體收益之百分比比較記憶體產品高。年內，本集團繼續開發及推出兩種產品之新型號，建立廣闊之產品系列。例如本集團已開始擴充至生產硬碟MP3產品，並已推出新型號。在美國，本集團已推出其首個1吋記憶體產品，日後更會推出更高容量，為專業使用者而設之1.8吋型號。

本集團亦繼續開發一般能賺取較高毛利之多功能新產品。此外，銷售數量增長不單增加銷售額，亦刺激了收益。數量增加更令本集團得以改善經濟規模效益，提升與供應商磋商最優惠條款之能力。

環境

本集團正重新定位為致力改善環境工作之企業。從純經濟角度來看，此項策略對本集團實屬重要，因自下年度起，歐洲市場將對所使用之電子元件實施新的嚴格環保要求，例如廢料電力及電子設備(WEEE)指引及限制於電力及電子設備使用若干有害物質(ROHS)指引。然而，本集團更進一步，不單為遵守有關規則，更將本身定位為真正具有環保意識，致力締造「綠色工廠」營運之製造商。例如本集團一直大力支持香港政府之可充電電池回收計劃，該計劃之目的為移除廢物中之可充電電池，並回收當中之礦物及金屬。

資本結構、流動資金及財政資源

於二零零五年一月，本集團向本集團主席潘蘇通先生發行及配發80,000,000股新股份，作為根據「市場」一節所述本集團與松日國際集團訂立之協議收購商標之部分代價。本集團亦將

under the heading titled "Markets". Another 15 million new shares will be issued to Mr. Pan Su Tong on or before 1st November, 2005 pursuant to the said agreements.

In March 2005, the Group placed 80 million new shares at HK\$2.6 per share with the aim of enhancing the Group's capital base, strengthening its financial position, and bringing it improved resources for new product development in order to capture business opportunities. The share placing raised a net proceed of HK\$202 million and had the effect of diversifying the Group's shareholder base to include international institutional investors.

The Group's working capital at 31st March, 2005 amounted to HK\$717 million, representing a substantial increase of about 97% from last year. On the other hand, inventories and trade and other receivables increased by 115% and 190% respectively whereas trade and other payables also increased by 372% compared to the balances attained in the last corresponding year. The drastic increases in percentages were reflections of the successful business performance in the fiscal year 2004/2005. As the Group's turnover had a tremendous increase of 178% over last year, all the trade-related balances had staggering increases so as to support the business growth. Attributed to the encouraging performance during the year, the Group's bank balances and cash also jumped up from HK\$192 million to HK\$514 million, representing a surge of 168%.

The gearing ratio, calculated on the basis of total borrowings over net worth, increased from 20% in 2004 to 28% in 2005. The current ratio, however, dropped from 3 times to 2 times. These phenomenal changes were triggered by the increase in bank borrowings from HK\$81 million to HK\$302 million. To cover the rapid growth in production in response to higher market demand during the year, the Group utilized higher levels of short-term bank financing for the procurement of raw materials.

The Group's monetary assets and liabilities were principally denominated in Hong Kong dollars, Chinese Renminbi and US dollars. Inasmuch as the Hong Kong dollars is pegged to the US dollars, and that there has been minimal fluctuation in exchange rate between Hong Kong dollars and Chinese Renminbi, the Group's exposure to currency exchange risk was minimal.

於二零零五年十一月一日或之前根據上述協議向潘蘇通先生再發行15,000,000股新股份。

於二零零五年三月，本集團按每股2.6港元配售80,000,000股新股份，務求鞏固本集團之資本基礎，加強財政狀況，及引入新產品開發之改善資源，以抓緊商機。股份配售所籌得之款項淨額202,000,000港元，引進國際機構投資者，使本集團之股東基礎更為多元化。

本集團於二零零五年三月三十一日之營運資金為717,000,000港元，較去年大幅增加約97%。另一方面，與去年同期之結餘比較，存貨及應收賬款及其他應收款項分別增加115%及190%，而應付賬款及其他應付款項亦增加372%。上述百分比之急升反映二零零四／二零零五財政年度之傑出業務表現。由於本集團之營業額較去年飆升178%，所有貿易相關結餘皆呈現巨大增長，以支持業務增長。全賴年內令人鼓舞之表現，本集團之銀行結餘及現金亦由192,000,000港元跳升至514,000,000港元，增幅達168%。

負債比率（按總借款除以資產淨值計算）由二零零四年之20%增至二零零五年之28%。然而，流動比率由3倍減少至2倍。此等變動是由於銀行借款由81,000,000港元增加至302,000,000港元所致。年內，因應市場需求增加而帶來之生產迅速速度，本集團動用較多短期銀行融資以採購原材料。

本集團之貨幣性資產及負債主要以港元、人民幣及美元計算。鑑於港元與美元掛鈎，而港元兌人民幣之匯率波幅輕微，本集團之外匯波動風險只屬輕微。

EMPLOYMENT AND REMUNERATION POLICY

As at 31st March, 2005, the Group had a total number of approximately 680 (2004: 500) employees.

The remuneration policy and package of the Group's employees are structured by reference to market terms and statutory requirements as appropriate. In addition, the Group also provide other staff benefits such as medical insurance, mandatory provident fund and a share option scheme to its employees.

PROSPECTS

According to International Data Corporation, the global shipment of portable compressed audio player will increase to 116 million units in 2008 from about 33 million units in 2003. There is a strong projected growth in demand for all types of MP3s with CAGR at 28.8%. The Group aims to gain substantial share of the worldwide MP3 market and become the largest MP3s manufacturer in the world.

One of the Group's marketing highlights of the year was the signing of Olympic multiple gold medalist swimmer Michael Phelps to represent the Matsunichi brand. The signing, a four-year contract, was completed in March 2005. The Group believes Michael Phelps is an ideal figurehead for the brand, especially for positioning it at the international level. His image of youth coupled with achievement is one that the Group believes to be in synergy with the philosophy of its own products. The Michael Phelps marketing campaign is due to kick off in the second half of 2005. Commercials will appear in local and international media from mid-July in Hong Kong, before being launched in the People's Republic of China ("PRC"). International promotion will begin from September. Phelps himself will visit Hong Kong, Beijing and Shanghai in mid-August 2005. The Group has earmarked a budget of around HK\$100 million for its advertising and promotion activities over the coming year.

The Group has the strong research and development capabilities required to generate a constant stream of new products to satisfy both its ODM and OBM markets. It is on the verge of launching its first range of portable multi-media player ("PMP") products, which will offer audio and video entertainment for users on the move that will include movie playback and photo browsing

僱員及薪酬政策

於二零零五年三月三十一日，本集團合共約有680名（二零零四年：500名）僱員。

本集團之僱員薪酬政策及組合乃參照市場趨勢及適用之法定規定制訂。此外，本集團亦為僱員提供其他員工福利，例如醫療保險、強制性公積金及購股權計劃。

展望

國際數據公司(International Data Corporation)之資料顯示，隨身壓縮音樂播放機之全球付運量將由二零零三年約33,000,000部飆升至二零零八年之116,000,000部。預期各類型之MP3播放機需求增長強勁，年複合增長率高達28.8%。本集團旨在取得全球MP3播放機市場之大幅佔有率，成為全球最大之MP3播放機製造商。

本集團年內市場推廣重點之一為與多項奧運金牌游泳選手菲爾普斯(Michael Phelps)簽訂代表松日品牌之四年合約。簽署合約儀式已於二零零五年三月完成。本集團深信菲爾普斯是松日品牌之理想代言人，尤其在國際層面上。本集團認為他的青春形象及成就與本集團之產品理念不謀而合。菲爾普斯之市場推廣活動將於二零零五年下半年度展開，七月中將會於香港本地及國際媒體上刊登廣告，廣告其後會再於中華人民共和國（「中國」）推出，而國際宣傳將於九月展開。菲爾普斯本人將於二零零五年八月中到訪香港、北京及上海。本集團已撥約100,000,000港元之預算作為來年之廣告及宣傳活動之費用。

本集團具有強勁研發能力，足以定期推出新產品，同時滿足原創設計製造(ODM)及原創品牌製造(OBM)市場。本集團即將推出其首個手提多媒體播放機（「PMP」）產品系列，該系列將為使用者帶來路途上之影音娛樂，包括播放短片及瀏覽相片等功能。該等產品暫定於二零零五

options. A provisional launch date has been set for the third quarter of 2005, with plans to launch these products worldwide. The PMP product launch will be strongly supported by the Michael Phelps marketing campaign. The Group expects these products, which command high profit margins, to be a major international growth driver in coming years.

As mentioned earlier, the Group currently sells own-brand MP3s through some smaller-scale national distributors in the US. In the coming year, however, it aims to significantly boost the scale of its OBM operations there. It will set up an operational base on the east coast of the US later in 2005, in time for the Christmas buying period. It plans to sell its MP3s directly to major national US channels, and is aiming high in terms of the number of units it sells and the revenues it is expecting to generate. With evidence showing that US consumers are ready to embrace digital consumer products on a large scale, the Group believes the opportunities for success of its own brand products are substantial indeed.

Some of the Group's OBM products are already being distributed in Germany and other countries in Europe. Currently, the Group is also selling some ODM products through a UK-based retail chain which is one of Europe's largest and which also has branches and subsidiaries outside the UK. By Christmas, this chain will also be carrying the Group's OBM products. The Group will enter into agreement within this year with local distributors in France and Spain to carry its own-brand products as well.

In the Asia Pacific market, where the Group's primary focus is on OBM products, plans are in place for Matsunichi own-brand MP3 players to begin distribution in Australia and New Zealand later this year. As for the China market, it possesses huge and as yet largely untapped potentials the Group expects its product sales to continue to grow robustly there. In addition, although most of the Group's business in the Asia region is OBM business, it is currently involved in negotiating with some major Japanese electronics brand names with the aim of becoming involved in the Japanese market on an ODM basis later in the year. The Group's worldwide presence, covering the US, major European countries and Asia Pacific, is the key to its emergence as a world leading provider of digital consumer electronic products.

年第三季推出，並計劃在全球發售。PMP產品之推出將會與菲爾普斯之市場推廣活動互相配合。本集團預期該等高毛利產品將於來年成為主要之國際增長動力。

誠如上文所述，本集團現時透過美國若干小規模之全國性分銷商銷售本身品牌之MP3播放機。然而，本集團來年將以在美國市場擴大其原創品牌製造(OBM)規模為目標。本集團將於二零零五年下半年度在美國東岸建立營運基地，迎接聖誕購物旺季。由於有證據顯示美國消費者趨向大量使用數碼消費產品，本集團計劃向美國主要全國性頻道直銷MP3播放機，期望能在MP3播放機銷售數字及所產生之收益兩方面同時取得佳績。因此，本集團相信其本身品牌產品勢必勝券在握。

本集團之部分原創品牌製造(OBM)產品經已在德國及歐洲其他國家分銷。目前，本集團亦透過英國一間連鎖式商店銷售部分原創設計製造(ODM)產品，該連鎖式商店為歐洲最大型連鎖式商店之一，在英國以外地區均設有分公司及附屬公司。於聖誕前，該連鎖式商店亦將會銷售本集團之原創品牌製造(OBM)產品。本集團亦將於年內與法國及西班牙之當地分銷商就銷售本集團本身之品牌產品訂立協議。

本集團在亞太市場中，主要重點為原創品牌製造(OBM)之產品，本集團已完成計劃於本年度較後時間在澳洲及紐西蘭開始分銷松日品牌之MP3播放機。中國市場具備龐大而尚未開發之潛力：本集團預期中國產品之銷售將繼續迅速增長。此外，儘管本集團在亞洲區之大部分業務均為原創品牌製造(OBM)，本集團現正與若干主要日本電子品牌磋商，務求於本年度較後時間以原創設計製造(ODM)模式進軍日本市場。本集團之產品覆蓋美國、主要歐洲國家及亞太區，其全球市場佔有率乃本集團成為全球數一數二之數碼消費產品供應商之關鍵所在。