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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Matsunichi Communication Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee, or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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Matsunichi Communication Holdings Limited
松日通訊控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 283)

MAJOR AND CONNECTED TRANSACTIONS
INVOLVING ISSUE OF NEW SHARES OF THE COMPANY

**Independent financial adviser to the Independent Board Committee
and the Independent Shareholders**

Hercules
Hercules Capital Limited

A letter from the Independent Board Committee is set out on page 17 of this circular.

A letter from Hercules Capital Limited, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 18 to 36 of this circular.

A notice convening the Extraordinary General Meeting to be held at 11:00 a.m. on Monday, 24th January, 2005 at 22/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong is set out on pages 96 to 97 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the share registrars and transfer office of Matsunichi Communication Holdings Limited, Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, as soon as possible and in any event not later than 48 hours before the time for holding the Extraordinary General Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the Extraordinary General Meeting or any adjournment thereof should you so wish.

7th January, 2005

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DEFINITIONS

In this circular, the following expressions have the following meanings unless the context requires otherwise:

“Acquisitions”	the purchase by the Company of the Trademarks, including the PRC Rights, pursuant to the MIHL Agreement and the GD Agreement
“associates”	has the meanings ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (excluding Saturdays, Sundays, days on which the Black Rain Storm Warning Signal in Hong Kong has been announced and days on which a tropical cyclone warning No. 8 or above in Hong Kong has been hoisted) on which commercial banks are generally open for banking business in Hong Kong
“Chairman”	the chairman of the Board
“Company”	Matsunichi Communication Holdings Limited, a company incorporated in Hong Kong with its shares listed on the Main Board of the Stock Exchange
“connected persons”	has the meanings ascribed to it under the Listing Rules
“Consideration Shares”	MIHL Consideration Shares and GD Consideration Shares
“Convention Priority Date(s)”	a date or dates on which an application for a trade mark registration has been made in one member country to the Paris Convention for the Protection of Industrial Property of 20th March, 1883 (the “Paris Convention”) that may be claimed as the application date for subsequent applications for registration of the same trade mark in other member countries to the Paris Convention if made within 6 months of the first application
“Directors”	the directors of the Company
“Encumbrances”	any option, right to acquire, right of pre-emption, mortgage, charge, pledge, lien, hypothecation, title retention, right of set off, claim or counterclaim, trust arrangement or other security or encumbrance or any equity or restriction
“Enlarged Group”	the Group after completion of the Acquisitions


DEFINITIONS

“Extraordinary General Meeting”	an extraordinary general meeting of the Company convened to be held for the Independent Shareholders to consider and, if thought fit, to approve the Acquisitions and the transactions contemplated thereunder
“GD Agreement”	the conditional agreement for the sale and purchase of the PRC Rights dated 3rd November, 2004 entered into among MIHL as the vendor, MHT as the purchaser, GME and GMCT as the covenantors, Matsunichi (Shenzhen) as the assignee and Mr. Pan as the guarantor
“GD Consideration Shares”	the 15 million new Shares (subject to adjustment in the event of any alterations in the capital structure of the Company in accordance with the relevant clause in the GD Agreement) having an aggregate value of HK\$30 million, to be issued to MIHL and/or its nominee(s) at a price of HK\$2.0 per Share (subject to adjustment in the event of any alterations in the capital structure of the Company in accordance with the relevant clause in the GD Agreement) pursuant to the GD Agreement
“GMCT”	廣東松日通訊科技股份有限公司 (Guangdong Matsunichi Communications Technology Company Limited), a sino-foreign joint venture established in the PRC and is 49% indirectly beneficially owned by Mr. Pan
“GME”	廣東松日電器有限公司 (Guangdong Matsunichi Electronics Limited), a sino-foreign joint venture established in the PRC and is 90% indirectly beneficially owned by Mr. Pan
“Group”	the Company and its subsidiaries
“Hercules”	Hercules Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders as regards the Acquisitions, a licensed corporation under the SFO to carry out type 6 regulated activity (advising on corporate finance)
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent committee of the Board comprising the independent non-executive Directors who are not interested in the Acquisitions
“Independent Shareholders”	Shareholders other than Mr. Pan and his associates

DEFINITIONS

“Latest Practicable Date”	5th January, 2005, being the latest practicable date for ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Matsunichi (Shenzhen)”	Matsunichi Information Technology (Shenzhen) Co., Ltd., an enterprise established in the PRC and is a wholly-owned subsidiary of the Company
“MHT”	Matsunichi Hi-Tech Limited, a company incorporated in Hong Kong and is a wholly-owned subsidiary of the Company
“MIHL”	Matsunichi International Holdings Limited, a company incorporated in Hong Kong and is wholly and beneficially owned by Mr. Pan
“MIHL Agreement”	the conditional agreement for the sale and purchase of the Trademarks dated 3rd November, 2004 entered into among MIHL as the vendor, MHT as the purchaser and Mr. Pan as the guarantor
“MIHL Consideration Shares”	the 80 million new Shares (subject to adjustment in the event of any alterations in the capital structure of the Company in accordance with the relevant clause in the MIHL Agreement) having an aggregate value of HK\$160 million, to be issued to MIHL and/or its nominee(s) at a price of HK\$2.0 per Share (subject to adjustment in the event of any alterations in the capital structure of the Company in accordance with the relevant clause in the MIHL Agreement) pursuant to the MIHL Agreement
“Mr. Pan”	Mr. Pan Su Tong, the Chairman and the controlling Shareholder
“PRC”	the People’s Republic of China (for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region and Taiwan)
“PRC Rights”	the rights to the registrations of and to use the Trademarks in the PRC and all remaining legal and beneficial rights, title and interest in the Trademarks or their registrations that have not yet been transferred under the MIHL Agreement together with the goodwill of the business concerned in the goods and services on which the Trademarks are used
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“Share(s)”	ordinary share(s) of HK\$0.05 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Trademarks”	the trademarks, service marks, logos and commercial symbols of “Matsunichi”, “松日”, “  ” and “數碼皇后”
“Valuer”	Censere (Far East) Limited, a regional financial valuation firm
“HK\$”	Hong Kong dollars
“%”	per cent.

LETTER FROM THE BOARD



Matsunichi Communication Holdings Limited

松日通訊控股有限公司

(Incorporated in Hong Kong with limited liability)

Executive Directors:

Mr. Pan Su Tong (Chairman)
Mr. Siu Wai Yip
Mr. Huang Hui
Mr. Dong Zhi Qiang

Registered Office

and principal place of business:
22/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

Independent non-executive Directors:

Mr. Lai Chi Kin, Lawrence
Dr. Ng Lai Man, Carmen
Mr. Cheng Kwan Wai


7th January, 2005

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTIONS INVOLVING ISSUE OF NEW SHARES OF THE COMPANY

INTRODUCTION

The Board announced on 9th November, 2004 that MHT, a subsidiary of the Company, entered into the MIHL Agreement and the GD Agreement with MIHL or/and GME, GMCT and others in respect of the acquisitions of the trademarks, service marks, logos and commercial symbols of “Matsunichi”, “松日”, “” and “數碼皇后” for a total consideration of HK\$210 million. The consideration will be satisfied as to HK\$20 million by cash and as to HK\$190 million by way of allotment and issue of new Shares to MIHL and/or its nominee(s) at HK\$2.0 per Share (subject to adjustment in the event of any alterations in the capital structure of the Company). The MIHL Consideration Shares and the GD Consideration Shares in aggregate represent approximately 18.66% of the existing issued share capital of the Company and approximately 15.73% of the issued share capital of the Company as enlarged by the Consideration Shares.

MIHL, GME and GMCT are associates of Mr. Pan. Mr. Pan is the Chairman and was beneficially interested in approximately 67.02% of the issued share capital of the Company as at the Latest Practicable Date. The Acquisitions therefore constitute connected transactions of the Company under the Listing Rules. The Acquisitions in aggregate also constitute a major transaction of the Company under the Listing Rules.

LETTER FROM THE BOARD

The Independent Board Committee, comprising all the independent non-executive Directors namely Mr. Lai Chi Kin, Lawrence, Dr. Ng Lai Man, Carmen and Mr. Cheng Kwan Wai, has been formed to advise the Independent Shareholders in respect of the Acquisitions. Hercules has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisitions.

The purpose of this circular is (i) to provide you with further details of the Acquisitions; (ii) to set out the recommendation of the Independent Board Committee to the Independent Shareholders and the advice of Hercules to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Acquisitions; and (iii) to provide you with notice of the Extraordinary General Meeting and other information required under the Listing Rules.

THE MIHL AGREEMENT DATED 3RD NOVEMBER, 2004

Parties




Vendor: Matsunichi International Holdings Limited

MIHL is indirectly wholly and beneficially owned by Mr. Pan. Its principal business is the holding of the Trademarks, excluding the PRC Rights (as described below).

Purchaser: Matsunichi Hi-Tech Limited, a wholly-owned subsidiary of the Company

Guarantor: Mr. Pan, who agreed to guarantee the performance by MIHL of its obligations under the MIHL Agreement

Asset to be acquired

MIHL is the beneficial and registered owner of the trademarks, service marks, logos and commercial symbols of “Matsunichi”, “松日”, “” and “數碼皇后”. The trademarks of “Matsunichi”, “松日” and “” are registered under class 9 (for products including consumer electronic products) in Hong Kong and in countries or districts outside the PRC. The trademarks of “Matsunichi”, “松日”, “” and “數碼皇后” are registered under class 7 (for products including machine and machine tools) or class 9 or class 11 (for products including household appliances) in the PRC. The Group is currently principally engaged in the manufacturing and trading of digital consumer electronic products, which fall under the class 9 registration, in countries including Hong Kong and the PRC. The Company currently does not have any plans to expand its product range into products falling under Class 7 and Class 11 registration. However, the Company will consider expansion of its product range when suitable opportunities arise.

Pursuant to the MIHL Agreement, MIHL shall sell as legal and beneficial owner and MHT shall purchase, free from Encumbrances, all rights, title and interest in and to the Trademarks and the right to apply for registration thereof in all parts of the world including the benefit of the Convention Priority Date(s) and all legal and beneficial rights, title and interest in the same together with the goodwill of the business concerned in the goods or services on which the Trademarks are used, save that the sale and purchase contemplated in the MIHL Agreement does not include the rights to the registrations and to use the Trademarks in the PRC (the “PRC Rights” as further described below). The PRC Rights are the

LETTER FROM THE BOARD

subject matters of the GD Agreement entered into simultaneously with the MIHL Agreement. Details of the GD Agreement are set out below.

Consideration

The consideration for the acquisition of the Trademarks (excluding the PRC Rights) is HK\$180 million, to be satisfied as to HK\$20 million in cash by internal source of funds and as to the remaining HK\$160 million by MHT procuring the Company to issue and allot 80 million new Shares (subject to adjustment in the event of any alterations in the capital structure of the Company) to MIHL and/or its nominee(s). The MIHL Consideration Shares shall be issued and credited as fully paid at HK\$2.0 per Share (subject to adjustment in the event of any alterations in the capital structure of the Company). The consideration payable pursuant to the MIHL Agreement shall be fully satisfied at completion of the MIHL Agreement.

Conditions precedent

Completion of the MIHL Agreement is conditional upon the following:

1. the Stock Exchange granting the listing of and permission to deal in the MIHL Consideration Shares;
2. the Independent Shareholders having approved the MIHL Agreement, the implementation of the transactions contemplated thereunder and all other matters incidental thereto, including the issue of the MIHL Consideration Shares, in accordance with the provisions of the Listing Rules; and
3. the conditions (1), (2) and (4) under the GD Agreement having been fulfilled.

None of the above conditions would be waived. If any of the conditions precedent to the MIHL Agreement shall not have been fulfilled by 5:00 p.m. (Hong Kong time) on or before 31st January, 2005 (or such later date as MIHL and MHT may agree in writing), the MIHL Agreement shall, subject to the liability of any party to the other in respect of any breaches of the terms of the agreement, be null and void and of no effect.

Completion

Completion of the MIHL Agreement shall take place on the first Business Day immediately following the fulfillment of all conditions precedent to the MIHL Agreement (or such later date as MIHL and MHT may agree in writing prior to completion of the MIHL Agreement).

THE GD AGREEMENT DATED 3RD NOVEMBER, 2004

Parties

Vendor: Matsunichi International Holdings Limited

Purchaser: Matsunichi Hi-Tech Limited

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Covenantors: 廣東松日電器有限公司 (Guangdong Matsunichi Electronics Limited)
廣東松日通訊科技股份有限公司 (Guangdong Matsunichi Communications Technology Company Limited)

To the best of the Directors' knowledge, information and belief and after having made all reasonable enquiry, GME is indirectly beneficially owned as to 90% by Mr. Pan and 10% by a third party independent of the Company and its connected persons. GMCT is indirectly beneficially owned as to 49% by Mr. Pan and 51% by third parties independent of the Company and its connected persons.

GME is the registered owner of the registrations of the Trademarks in the PRC. GMCT has applied to transfer two of the registrations of the Trademarks in the PRC to it from GME. GME and GMCT shall cause the registrations of the Trademarks (including the said two registrations) in the PRC to be vested in Matsunichi (Shenzhen) as detailed below.

Assignee: Matsunichi Information Technology (Shenzhen) Co., Ltd, a wholly-owned subsidiary of the Company.

Matsunichi (Shenzhen) shall, after completion of the GD Agreement, be assigned by MHT to become the registered owner of the registrations of the Trademarks in the PRC. Matsunichi (Shenzhen) will be engaged in the manufacturing and trading of products bearing the Trademarks.

Guarantor: Mr. Pan, who agreed to guarantee the performance by MIHL, GME and GMCT of their respective obligations under the GD Agreement.

Asset to be acquired

MIHL shall sell as beneficial owner and MHT shall purchase, free from Encumbrances, all of the PRC Rights, which include the rights to the registrations of the Trademarks in the PRC (including the right to apply for additional registrations for the Trademarks in the PRC and the benefit of the Convention Priority Date(s)), the right to use the Trademarks in the PRC, and all remaining legal and beneficial rights, title and interest in the Trademarks or their registrations that have not yet been transferred under the MIHL Agreement together with the goodwill of the business concerned in the goods and services on which the said Trademarks are used. The PRC Rights include the transfer to Matsunichi (Shenzhen) registrations for the trademarks of "Matsunichi", "松日", "數碼皇后" and "數碼皇后" under class 7 (for products including machine and machine tools) or class 9 (for products including consumer electronic products) or class 11 (for products including household appliances) in the PRC.

Consideration

The consideration payable pursuant to the GD Agreement shall be HK\$30 million, to be satisfied at completion of the GD Agreement by MHT procuring the Company to issue 15 million new Shares (subject to adjustment in the event of any alterations in the capital structure of the Company) to MIHL

LETTER FROM THE BOARD

and/or its nominee(s). The GD Consideration Shares shall be issued and credited as fully paid at HK\$2.0 per Share (subject to adjustment in the event of any alterations in the capital structure of the Company).

Conditions precedent

Completion of the GD Agreement is conditional upon the following:

1. the Stock Exchange granting the listing of and permission to deal in the GD Consideration Shares;
2. the Independent Shareholders having approved the GD Agreement, the implementation of the transactions contemplated thereunder and all other matters incidental thereto, including the issue of the GD Consideration Shares, in accordance with the provisions of the Listing Rules;
3. completion (as defined in the MIHL Agreement) having occurred under the MIHL Agreement in accordance with its terms; and
4. if necessary, compliance with any relevant PRC laws or regulations for the sale of the rights to the Trademarks in the PRC.

None of the above conditions would be waived. If any of the conditions has not been fulfilled by 5:00 p.m. (Hong Kong time) on or before 31st October, 2005 (or such later date as MIHL and MHT may agree in writing), the GD Agreement shall, subject to the liability of any party to the other in respect of any breaches of the terms of the agreement, be null and void and of no effect.

Completion

Upon completion of the MIHL Agreement, the conditions precedent to the GD Agreement would have been fulfilled. Completion of the GD Agreement shall take place on 1st November, 2005 (or such later date as MIHL and MHT may agree in writing prior to completion of the GD Agreement) provided that the conditions precedent to the GD Agreement shall have been fulfilled.

On completion, MIHL, GME and GMCT shall cause to be performed, executed and delivered to MHT all such documents, instruments, acts and things as MHT may request for registering Matsunichi (Shenzhen) as the owner of the registrations of the Trademarks in the PRC.

OTHER MATERIAL TERMS

Licence Deeds

The Trademarks are currently licensed under two deeds (the "License Deeds") entered into by GME, GMCT or MIHL as licensor and MHT as licensee in 2002 whereby MHT is granted the non-exclusive use of the Trademarks on MP3 players and certain consumer electronic products in anywhere of the world for a period of three years commencing from 1st November, 2002 to 31st October, 2005 at an aggregate nominal fee of HK\$2.00 per annum.

LETTER FROM THE BOARD

The licence deed that covers the use of the Trademarks in anywhere of the world outside the PRC shall be early terminated with immediate effect upon completion of the MIHL Agreement. The licence deed that covers the use of the Trademarks in the PRC shall not be renewed and shall expire in accordance with its terms on 31st October, 2005. In the event that the Acquisitions do not proceed, Mr. Pan has indicated that he would consider granting new licences to allow the Group to continue to use the Trademarks on commercial terms to be agreed by Mr. Pan and MHT upon expiry of the License Deeds.

Use of company name

Following completion of the MIHL Agreement and the GD Agreement, except for using the Trademarks as part of the company names for certain private companies controlled by Mr. Pan or their wholly-owned subsidiaries or as the name of a building located in Shaoquan, Guangdong Province, the PRC, MIHL, GME and GMCT undertake not to use the Trademarks for any other purposes. No fees will be payable by Mr. Pan or his controlled companies for using the Trademarks for the aforesaid purposes.

BASIS OF CONSIDERATION

The aggregate consideration for the Acquisitions, including the PRC Rights, of HK\$210 million has been determined after arm's length negotiations between the parties thereto with reference to a valuation of the Trademarks in the amount of HK\$217 million (the "Valuation") as at 30th September, 2004 made by the Valuer, Censere (Far East) Limited, a regional financial valuation firm. In valuing the Trademarks, the Valuer has adopted the Relief From Royalty approach, i.e. the value of the Trademarks are assessed based on an estimated trademark royalty fee that the owner will save by owning rather than licensing the trademarks at an arm's length negotiated rate. After discussing with the Valuer the basis and assumptions of the valuation and reasons for the methodology adopted, the Board (including the independent non-executive Directors) considers the valuation fair and reasonable. The aggregate consideration for the Acquisitions represents a discount of approximately 3.2% to the Valuation. The Board (including the independent non-executive Directors) considers the considerations for the Acquisitions fair and reasonable to the Company.

The Consideration Shares represent approximately 18.66% of the existing issued share capital of the Company and approximately 15.73% of the issued share capital of the Company as enlarged by the Consideration Shares. The Directors consider that, by issuing the Consideration Shares, the Company would be able to pursue the Acquisitions without materially affecting the working capital of the Group.

The Consideration Shares will be issued at HK\$2.0 each, representing a premium of approximately 5.8% to the closing price of HK\$1.89 per Share on 3rd November, 2004, being the last trading day prior to the entering into the MIHL Agreement and the GD Agreement (the "Last Trading Day"), a premium of approximately 7.0% to the average closing price of the Shares of HK\$1.87 for the last 5 trading days up to and including the Last Trading Day; and a premium of approximately 8.1% to the average closing price of the shares of HK\$1.85 for the last 10 trading days up to and including the Last Trading Day.

The Consideration Shares have an aggregate market value of approximately HK\$179.6 million, calculated at the closing price of HK\$1.89 per Share on the Last Trading Day and an aggregate market value of approximately HK\$216.1 million, calculated at the closing price of HK\$2.275 per Share on the Latest Practicable Date.

The Consideration Shares, when issued, shall rank pari passu in all respects with all the existing Shares in issue, including the rights to any dividends or distributions. There is no trading restriction on the Consideration Shares.

An application has been made by the Company to the Stock Exchange for the listing of and permission to deal in the Consideration Shares.

LETTER FROM THE BOARD

CHANGES IN SHAREHOLDING STRUCTURE

As at the Latest Practicable Date, Mr. Pan, through Jade Forest Limited, is beneficially interested in 341,202,894 Shares, representing 67.02% of the issued share capital of the Company.

Mr. Pan and its associates, including MIHL, will be beneficially interested in 421,202,894 Shares, representing approximately 71.50% of the issued share capital of the Company as enlarged by the issue of the MIHL Consideration Shares upon completion of the MIHL Agreement. Upon completion of the GD Agreement, Mr. Pan and its associates, including MIHL, will be beneficially interested in 436,202,894 Shares, representing approximately 72.21% of the issued share capital of the Company as further enlarged by the issue of the GD Consideration Shares. The Acquisitions will not result in a change of control of the Company.

The following table illustrates the Company's shareholding changes as a result of the Acquisitions:

	As at the Latest Practicable Date		Upon the issue of MIHL Consideration Shares		Upon the issue of MIHL Consideration Shares and GD Consideration Shares	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
Jade Forest Limited (Note 1) and its associates, including MIHL	341,202,894	67.02	421,202,894	71.50	436,202,894	72.21
Public	167,883,789	32.98	167,883,789	28.50	167,883,789	27.79
Total (Note 2)	<u>509,086,683</u>	<u>100.00</u>	<u>589,086,683</u>	<u>100.00</u>	<u>604,086,683</u>	<u>100.00</u>

Notes:

- (1) Jade Forest Limited is wholly and beneficially owned by Mr. Pan.
- (2) As at the Latest Practicable Date, the authorised share capital of the Company is HK\$500,000,000 divided into 10,000,000,000 ordinary shares of HK\$0.05 each. 509,086,683 Shares were issued and outstanding as at the Latest Practicable Date.

REASONS FOR THE ACQUISITIONS

The Group is principally engaged in the manufacturing and trading of digital consumer products bearing the Trademarks. MP3 player is the major branded product of the Group. For the year ended 31st March, 2003 and 31st March, 2004 and the six months ended 30th September, 2004, the manufacturing and trading of the branded digital consumer products contributed approximately HK\$94.8 million, HK\$419.6 million and HK\$628.1 million revenue (approximately 21.6%, 68.5% and 76.9% of the Group's total revenue) to the Group respectively. The remaining 78.4% of the Group's total revenue for the year ended 31st March, 2003 was attributable to discontinued businesses including apparel trading, printing and publishing and marine product trading; the remaining 31.5% of the Group's total revenue for the year ended 31st March, 2004 was attributable to the discontinued apparel trading business and the production of flash-based storage device by the Group as an Original Design Manufacturer; and the remaining 23.1% of the Group's total revenue for the six months ended 30th September, 2004 was attributable to the production of flash-based storage device by the Group as an Original Design Manufacturer. The Group was granted the non-exclusive use of the Trademarks under the Licence Deeds which will expire

LETTER FROM THE BOARD

on 31st October, 2005. In order to secure the exclusive right of the Trademarks which the Company considers a valuable asset, the Company approached Mr. Pan to negotiate the terms of the Acquisitions. The Acquisitions will be largely satisfied by Shares, which is considered in the interest of the Company as it enables the Company to acquire a valuable asset with small capital outlay. The Board (including the independent non-executive Directors) has resolved to acquire the Trademarks on the terms of the MIHL Agreement and the GD Agreement prior to expiry of the Licence Deeds as it is uncertain whether the same opportunity would be available to the Group when the Licence Deeds expire on 31st October, 2005.

The Trademarks are currently also being used on certain other consumer electronic products, including audio visual telephones, produced and traded in the PRC by companies controlled by Mr. Pan. After completion of the Acquisitions, Mr. Pan will cease to use the Trademarks on any of the products produced or traded by him or his controlled companies or for any other purposes except as part of the company names or the name of a building as set out in the above sub-paragraph headed "Use of company name". In the interim period prior to completion of the GD Agreement, Mr. Pan will close down all his private group business that is now using the Trademarks in the PRC. The Directors, including the independent non-executive Directors, do not consider this interim measure would have any material impact on the business and operation of the Group, as the product types being manufactured by Mr. Pan's private companies and the Group are different and there is no competition between the two groups.

As the Trademarks are crucial to the business of the Group, the Board considers it in the long term interest of the Group to acquire the full ownership and exclusive use of the Trademarks through the Acquisitions. In particular, the Group intends to launch new products bearing the Trademarks into the market in 2005. In the event that the Acquisitions do not proceed, the Board will, before expiry of the Licence Deeds, approach Mr. Pan to negotiate the renewal of the Licence Deeds or a new licence deed to allow the Group to continue to use the Trademarks.

The Directors, including the independent non-executive Directors, consider the terms of the Acquisition Agreements, including the issue of the Consideration Shares, fair and reasonable and the Acquisitions are beneficial to the Company and the Independent Shareholders as a whole.

FINANCIAL EFFECTS OF THE ACQUISITIONS ON THE GROUP

Assets and liabilities

As at 30th September, 2004, the unaudited net assets of the Group amounted to approximately HK\$710.1 million, equivalent to approximately HK\$1.39 per Share. Based on the pro forma statement of unaudited adjusted assets and liabilities of the Enlarged Group as set out in Appendix III to this circular, the unaudited pro forma combined net assets of the Enlarged Group will be approximately HK\$900.1 million or HK\$1.49 per Share (based on the enlarged issued share capital of 604,086,683 Shares). This represents an increase of approximately 7% as compared to the unaudited net assets of the Group as at 30th September, 2004.

Earnings

The Group recorded an audited consolidated net profit of HK\$71.1 million for the year ended 31st March, 2004 and an unaudited consolidated net profit of HK\$134.5 million for the six months ended 30th September, 2004 respectively. The Trademarks are currently licenced to the Group at nominal fees only. As aggregate consideration for the Acquisitions of HK\$210 million will be largely satisfied by issue of new Shares, there would be dilution effect on the earnings per Share.

LETTER FROM THE BOARD

BUSINESS REVIEW AND FUTURE PROSPECT OF THE GROUP

Business Review

Satisfactory growth across various markets

After using continuous efforts to expand into overseas markets particularly the United States (the “U.S.”), the Group successfully broadened its customer base during the six months ended 30th September, 2004 to include a few more customers. The strong economic growth in the U.S. accelerated the demand for digital consumer electronic products and boosted the Group’s business substantially. Revenue contribution from the U.S. amounted to HK\$706 million, which represented 86% of the Group’s total turnover for the six months ended 30th September, 2004 and HK\$229 million, which represented 37% of the Group’s total turnover for the year ended 31st March, 2004. The U.S. market not only provides a core revenue stream for the Group, but also a strong potential customer base for the Group’s Original Brand Manufacturer (“OBM”) business which it plans to further expand in the continent.

The Group was also able to achieve some breakthrough in Europe and recorded, from the market, revenue of HK\$8.4 million in the six months ended 30th September, 2004 as compared with HK\$45,000 for the year ended 31st March, 2004. Facilitated by the subsidiary it set up in Dusseldorf last year, the Group has rapidly extended the sales network for its OBM products in Europe. The Group believes there is much room for business growth in this market and plans to accelerate its marketing efforts there.

Back in Hong Kong, the Group recorded a 127% growth in revenue from its OBM business for the six months ended 30th September, 2004 as compared to the corresponding period last year, thanks to the strong market recognition of the “Matsunichi” brand.

With increased contribution from the overseas markets, the percentage of revenue contribution from the Greater China market lowered from 57% of the Group’s total turnover for the year ended 31st March, 2004 to 12% of the Group’s total turnover for the six months ended 30th September, 2004. This signifies the Group’s access to a truly global market and the great variety of business opportunities for its digital consumer electronics products in the global market place.

Synergistic combination of Original Design Manufacturer (“ODM”) and OBM businesses

The Group’s new production plant in Longgang, Shenzhen, has greatly expanded its production capacities for MP3 and Universal Serial Bus drives. The vertically integrated operations in the Longgang plant and the Dalian plant have enabled the Group to shorten its product lead time, guarantee product quality and enhance cost efficiency. These have facilitated the development of both the ODM and OBM businesses of the Group. The Group thus enjoys the competitive advantages of innovative product design, premium product quality and competitive pricing.

The revenue contribution ratio from the ODM and OBM businesses was approximately one to three in the six months ended 30th September, 2004. As OBM business enjoys a relatively higher profit margin, the Group will seek to expand its OBM business, particularly for higher storage products. The Group will also continue to develop its ODM business in order to secure a stable revenue stream as the demand for ODM products is more stable than that for OBM products, which is often affected by seasonality. The Group believes that it will continue to penetrate the ODM markets by leveraging its lower cost production base as well as its recognized technology and product quality. Moreover, the

LETTER FROM THE BOARD

Group will strive to further expand its customer base and sales network across its markets worldwide. The Group expects a continuous growth in both its ODM and OBM businesses, with the percentage of revenue contribution from these two businesses eventually be in the ratio of one to one.

Trading prospects

Ample opportunities arising in worldwide market

The global digital consumer electronic products market is expected to experience very promising growth in future. According to International Data Corporation (“IDC”), a global market intelligence and advisory firm in the information technology and telecommunications industries, the total worldwide shipment of flash MP3 players will reach 36.6 million units in 2007, representing a compound annual growth rate of 26% from 2002 to 2007. IDC also projects that the worldwide portable flash player market will attain a compound annual growth rate of over 24% from 2002 to 2007. The Group will seize these opportunities to capture a prominent share of the global market.

Defined product roadmap in place

To stay ahead of the market trends of greater miniaturization, higher storage and more features in the digital consumer electronic products, the Group has a well-defined product roadmap in place. The most imminent pursuit is the “Matsunichi” hard disk MP3 player to be launched by the end of year 2004. This new product is expected to become a major revenue growth driver for the Group in the future. Given the very limited number of hard disk suppliers in the global market, and the fact that the Group has secured a substantial portion of the hard disks supplied by a long-time partner, the Group does not expect competition in the hard disk MP3 player market to intensify with the entrance of new market players, not to mention that the entry barrier of the industry is exceptionally high. With a highly effective cost structure, the Group has the capability to adopt a competitive pricing strategy to capture the hard disk MP3 market.

Moreover, foreseeing the gradual emergence of portable multimedia players (“PMPs”), the Group plans to launch its first PMP by mid-2005 when the market will be ready for the new product. Featuring functions of movie playback and photo image browsing, PMPs will command even higher profit margins, and will be the Group’s growth driver in the longer term.

Elevated branding strategies

To complement the gradual extension of its OBM business, the Group proposed to acquire the trademarks of “Matsunichi” from MIHL, GME and GMCT for a total consideration of HK\$210 million which will be satisfied as to HK\$20 million by cash and as to HK\$190 million by the issue of new Shares at HK\$2.0 per Share. As the trademarks are crucial to the business of the Group, the Board considers that it is in the long-term interest of the Group to acquire the full ownership and exclusive use of them in view of the new products which will be launched into the market. Subsequent to this acquisition, the Group will be able to fully capitalize on the brand value of “Matsunichi”.

To further strengthen the “Matsunichi” brand name in the Greater China market, the Group will launch a new marketing campaign by the end of 2004 or early 2005. One of the highlights of the campaign will be the appointment of an internationally recognized celebrity as an endorser to support the Group’s international branding strategies.

LETTER FROM THE BOARD

In conclusion, all the above initiatives will be implemented with the full commitment of the management team and staff. With a vision to become a leading global player in the age of digital convergence, the Group will strive to capture a lion's share in the digital consumer electronics products market, to enhance profitability and long-term growth, and in turn bring to the Shareholders fruitful results of its business growth.

EXTRAORDINARY GENERAL MEETING

The Acquisitions, including the issue of the Consideration Shares, will be subject to the Independent Shareholders' approval (by way of poll) at the Extraordinary General Meeting. Mr. Pan and his associates shall abstain from voting on the Acquisitions.

A notice of Extraordinary General Meeting to be held at 11:00 a.m. on Monday, 24th January, 2005 at 22/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong is set out on pages 96 to 97 of this circular.

Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the share registrars and transfer office of the Company, Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, as soon as possible and in any event not later than 48 hours before the time for holding of the Extraordinary General Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the Extraordinary General Meeting or any adjournment thereof should you so wish.

PROCEDURE FOR DEMANDING A POLL

Pursuant to Article 75 of the articles of association of the Company, a poll may be demanded by:

- (i) the chairman of the meeting of Shareholders; or
- (ii) at least three members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting of Shareholders; or
- (iii) any member or members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all the members having the rights to vote at the meeting of Shareholders; or
- (iv) a member or members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and holding Shares in the Company conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right.

LETTER FROM THE BOARD

The Company's articles of association also provides that a resolution shall first be put to vote by show of hands. The above-mentioned Shareholders may demand for a poll on or before the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll.

RECOMMENDATION

The Independent Board Committee, after taking into account the advice from Hercules, considers that the terms and conditions of the MIHL Agreement and the GD Agreement are fair and reasonable and the entering into of the Acquisition Agreements is in the interests of the Company and the Shareholders as a whole and accordingly recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the Extraordinary General Meeting to approve the Acquisition Agreements and the transactions contemplated thereunder.

The text of the letter from the Independent Board Committee is set out on page 17 of this circular. The text of the letter from Hercules containing its advice to the Independent Board Committee and the Independent Shareholders and the principal factors and reasons which it has taken into account in arriving at its advice as regards the Acquisitions is set out on pages 18 to 36 of this circular.

FURTHER INFORMATION

Your attention is drawn to the text of the letters from the Independent Board Committee and Hercules respectively containing their opinions regarding the Acquisitions.

Your attention is also drawn to the additional information contained in the appendices to this circular and the notice of the Extraordinary General Meeting.

By order of the Board
Matsunichi Communication Holdings Limited
Pan Su Tong
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



Matsunichi Communication Holdings Limited

松日通訊控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 283)

7th January, 2005

To the Independent Shareholders

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTIONS
INVOLVING ISSUE OF NEW SHARES OF THE COMPANY**

We have been appointed as members of the Independent Board Committee to advise you in connection with the Acquisitions, details of which are set out in the Letter from the Board contained in this circular (the "Circular"). Terms defined in the Circular shall have the same meanings herein, unless the context otherwise requires.

Having taken into account the advice and recommendation of Hercules as set out on pages 18 to 36 of the Circular, we are of the opinion that the Acquisitions are in the interest of the Company and the Shareholders as a whole and the terms of the Acquisitions are fair and reasonable so far as the Shareholders and the Independent Shareholders are concerned. We therefore recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the Extraordinary General Meeting to approve the Acquisitions.

Yours faithfully,

Lai Chi Kin, Lawrence

Ng Lai Man, Carmen

Cheng Kwan Wai

Independent Board Committee

LETTER FROM HERCULES

The following is the full text of a letter from Hercules to the Independent Board Committee and the Independent Shareholders, prepared for the purpose of inclusion in this circular.

Hercules

Hercules Capital Limited

1503 Ruttonjee House
11 Duddell Street
Central
Hong Kong

7th January, 2005

*To the Independent Board Committee and the Independent Shareholders of
Matsunichi Communication Holdings Limited*

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION INVOLVING ISSUE OF NEW SHARES OF THE COMPANY

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders with respect to the proposed Acquisitions, details of which are set out in the “Letter from the Board” contained in the circular dated 7th January, 2005 to the Shareholders (the “Circular”) of which this letter forms part. Terms used in this letter have the same meanings as defined elsewhere in the Circular unless the context otherwise requires and specifies.

On 3rd November, 2004, MHT, a wholly-owned subsidiary of the Company, entered into the MIHL Agreement and the GD Agreement with MIHL or/and GME, GMCT and others to acquire the Trademarks for a total consideration of HK\$210 million. MIHL, GME and GMCT are associates of Mr. Pan, the Chairman who is beneficially interested in approximately 67.02% of the issued share capital of the Company as at the Latest Practicable Date and is therefore a connected person of the Company under Rule 14A.11(1) of the Listing Rules. Accordingly, the proposed Acquisitions constitute major and connected transactions for the Company under the Listing Rules, and are therefore subject to approval by the Independent Shareholders by poll at the Extraordinary General Meeting. Mr. Pan and his associates will abstain from voting in respect of the Acquisitions at the Extraordinary General Meeting.

The Independent Board Committee (comprising Mr. Lai Chi Kin, Lawrence, Dr. Ng Lai Man, Carmen and Mr. Cheng Kwan Wai) has been formed to advise the Independent Shareholders on whether the terms and conditions of the proposed Acquisitions are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole. Hercules is engaged to advise the Independent Board Committee and the Independent Shareholders in this regard.

LETTER FROM HERCULES

In formulating our recommendations, we have relied on the information and representations supplied, and the opinions expressed, by the Directors and management of the Company and have assumed that all statements and representations made or referred to in the Circular, including the Valuation conducted by the Valuer (and information and representations made to the Valuer are true and accurate in all respect), are true and accurate at the time they were made and as at the date of the Circular, and will continue to be true at the date of the Extraordinary General Meeting. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us. The Directors have confirmed, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no material facts the omission of which would make any statements in the Circular misleading. We consider that we have reviewed sufficient information to reach an informed view in order to provide a reasonable basis for our recommendation. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the businesses or affairs or future prospects of the Group and the related subjects and parties of the proposed Acquisitions.

PRINCIPAL FACTORS AND REASONS CONSIDERED

The principal factors and reasons that we have taken into consideration in assessing the proposed Acquisitions and arriving at our opinion are set out as follows:

1. Background

The Group has been listed on the main board of the Stock Exchange since 1973. Before Mr. Pan became its ultimate controlling Shareholder in July 2002, the Company was principally engaged in investment holding, trading of marine products, and trading and retailing of consumer products. The Company diversified into the manufacturing and trading of digital consumer electronic products business after the change of control in 2002. Its present name - Matsunichi Communications Holdings Limited - was adopted in August 2002. The Group is now principally engaged in the manufacturing and trading of digital consumer electronic products bearing the Trademarks. MP3 player is the major branded product of the Group. The Trademarks are currently licensed under the Licence Deeds entered into by GME, GMCT or MIHL as licensor and MHT as licensee in 2002 whereby MHT is granted the non-exclusive use of the Trademarks on MP3 players and certain consumer electronic products in anywhere of the world for a period of three years from 1st November, 2002 to 31st October, 2005 at an aggregate nominal fee of HK\$2.00 per annum.

Mr. Pan has over 20 years of experience in trading and manufacturing of advanced electronic products in the countries including PRC and Hong Kong. He is the founder, and has been the major shareholder of, the Matsunichi private group of companies (the "Matsunichi Group") since 1993. The Matsunichi Group has been engaged in the business of manufacturing, distribution, research and development of advanced electronic products including thin film transistor television, video telephone, and portable computer memory devices bearing the Trademarks in Hong Kong and the PRC. Mr. Pan has been developing the Trademarks for over 10 years.

LETTER FROM HERCULES

A summary of the Group's audited consolidated results for the three years ended 31st March, 2004 and unaudited condensed consolidated results for the six months ended 30th September, 2004 is set out below:

	For the six months ended	For the year ended 31st March, 2004		
	30th September, 2004	2004	2003	2002
	unaudited	audited	audited	audited
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER	817,187	613,059	438,381	589,719
Sales of digital consumer products	817,187	570,235	94,804	–
Apparel trading	–	42,824	151,172	159,520
Marine product trading	–	–	48,980	93,770
Sales of newspapers and publications	–	–	70,048	196,089
Advertising income	–	–	65,082	117,148
Printing income	–	–	7,178	19,013
Management fee income	–	–	1,117	3,642
Rental income	–	–	–	265
Interest income on loans receivable	–	–	–	272
GROSS PROFIT	229,429	168,515	125,010	82,781
PROFIT FROM OPERATIONS	155,067	72,520	566	(104,699)
PROFIT/(LOSS) BEFORE TAXATION	150,171	78,731	(1,525)	(120,388)
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	134,483	71,078	(2,565)	(120,315)

As shown in the table above, operating results of the Group have improved significantly over the period after the change of control in July 2002. The Group has, for the first time in several years, reported a net profit attributable to Shareholders of HK\$71,078,000 for the year ended 31st March, 2004. As stated in the annual report of the Company for the year ended 31st March, 2004, the turn-around performance was mainly attributed to the full year operation of the Group's digital electronic products business and the disposal of its non-core apparel & peripherals business. For the year ended 31st March, 2004, the Group recorded a gain on disposal of discontinuing operations of approximately HK\$10.1 million, representing approximately 12.8% and 14.2% of the profit before taxation and net profit attributable to Shareholders, respectively. For each of the two years ended 31st March, 2004, sale of digital consumer electronic products accounted for approximately 21.6% and 93.0% of the Group's total turnover, respectively. It is stated in the "Letter from the Board" that the revenue generated from the manufacturing and trading of the branded digital consumer electronic products accounted for approximately 21.6% and 68.5% of the audited turnover of the Group for financial years 2003 and 2004, respectively. The remaining 78.4% of the Group's total turnover for the year ended 31st March, 2003 was attributable to discontinued businesses including apparel trading, printing and publishing and marine product trading; and the remaining 31.5% of the Group's total turnover for the year ended 31st March, 2004 was attributable to the discontinued apparel trading business and the production of flash-based storage device as an Original Design Manufacturer.

LETTER FROM HERCULES

The turnover of the Group for the six months ended 30th September, 2004 increased by approximately 268.5% compared with the same period of the previous financial year. According to the Company's interim report for the six months ended 30th September 2004, such increase was attributable to the Group's ODM business from the United States market, as well as its expanded range of digital electronics products which attracted increased orders. It is stated in the Company's interim report that revenue contribution from the US increased by 760% amounting to HK\$706 million, which represented 86% of the Group's total turnover for the first half of FY05. The US market not only provides a core revenue stream for the Group, but also a strong potential customer base for the Group's OBM business which it plans to further expand into the continent. The Group was also able to achieve some breakthrough in Europe, recording revenue of HK\$8.4 million in the interim period. Facilitated by the subsidiary it set up in Dusseldorf last year, the Group has rapidly extended the sales network for its OBM products in Europe. In Hong Kong, the Group recorded a 127% growth in revenue from its OBM business, which was attributable to its effective branding strategies that have created strong recognition of the "Matsunichi" brand in the market. With increased contribution from the overseas markets, the percentage of revenue contribution from the Greater China market lowered to 12% of the Group's total turnover for the interim period. This signifies the Group's access to a truly global market and the great variety of business opportunities for its digital consumer electronics products in the global market place.

For the six months ended 30th September, 2004, sale of digital consumer electronic products accounted for 100% of the Group's total turnover. It is stated in the "Letter from the Board" that the turnover generated from the manufacturing and trading of the branded digital consumer electronic products contributed approximately HK\$628.1 million turnover, representing approximately 76.9% of the unaudited turnover of the Group for the six months ended 30th September, 2004. The remaining 23.1% of the Group's total turnover for the six months ended 30th September, 2004 was attributable to the production of flash-based storage device as an Original Design Manufacturer.

Compared with the same period of the previous financial year, gross profit grew by 219.5%. However, the gross profit margin decreased slightly from approximately 32.4% to 28.1% as a result of the reduction of average selling prices of the digital electronic products and the discontinuation of the apparel trading business. The Group's net profit for the six months ended 30th September, 2004 increased tremendously by 420.4% to approximately HK\$134.5 million. The net profit margin of the Group also increased from 11.7% to 16.5%. Such increase was attributable to economies of scale resulting from increased turnover, along with relatively small increases in operating expenses. Earnings per share for the six months ended 30th September, 2004 amounted to HK26.42 cents, representing a substantial growth of 72.0%.



Based on the Group's financial performance shown above, we are of the view that the strategic decision of the Group of diversifying into digital consumer electronic products has proven to be very successful.

LETTER FROM HERCULES

2. Principal terms of the MIHL Agreement and the GD Agreement

The MIHL Agreement

(i) *Assets to be acquired*

The trademarks of “Matsunichi”, “松日” and “” are registered under class 9 (for products including consumer electronic products) in Hong Kong and in countries or districts outside the PRC. The trademarks of “Matsunichi”, “松日”, “” and “數碼皇后” are registered under class 7 (for products including machine and machine tools) or class 9 or class 11 (for products including household appliances) in the PRC.


Pursuant to the MIHL Agreement, MIHL has conditionally agreed to sell as the legal and beneficial owner, and MHT has conditionally agreed to purchase, free from Encumbrances, all rights, title and interest in and to the Trademarks and the right to apply for registration thereof in all parts of the world including the benefit of the Convention Priority Date(s) and all legal and beneficial rights, title and interest in the same together with the goodwill of the business concerned in the goods or services on which the Trademarks are used, save that the sale and purchase contemplated in the MIHL Agreement does not include the PRC Rights (as defined and described in the “Letter from the Board”). The PRC Rights are the subject matters of the GD Agreement entered into simultaneously with the MIHL Agreement.

(ii) *Consideration*

The consideration for the acquisition of the Trademarks (excluding the PRC Rights) is HK\$180 million, which will be satisfied as to (i) HK\$20 million in cash; and (ii) HK\$160 million by MHT procuring the Company to issue and allot 80 million new Shares (subject to adjustment in the event of any alterations in the capital structure of the Company) to MIHL and/or its nominee(s). The MIHL Consideration Shares shall be issued and credited as fully paid at HK\$2.0 per Share (subject to adjustment in the event of any alterations in the capital structure of the Company). The consideration payable pursuant to the MIHL Agreement shall be fully satisfied at completion of the MIHL Agreement.

The GD Agreement

(i) *Assets to be acquired*

Pursuant to the GD Agreement, MIHL has conditionally agreed to sell as the beneficial owner, and MHT has conditionally agreed to purchase, free from Encumbrances, all of the PRC Rights, which include the rights to the registrations of the Trademarks in the PRC (including the right to apply for additional registrations for the Trademarks in the PRC and the benefit of the Convention Priority Date(s)), the right to use the Trademarks in the PRC, and all remaining legal and beneficial rights, title and interest in the Trademarks or their registrations that have not yet been transferred under the MIHL Agreement together with the goodwill of the business concerned in the goods and services on which the said Trademarks are used. The PRC Rights include the transfer to Matsunichi (Shenzhen) registrations for the trademarks of “Matsunichi”, “松日”, “” and “數碼皇后” under class 7 (for products including machine and machine tools) or class 9 (for products including consumer electronic products) or class 11 (for products including household appliances) in the PRC.

LETTER FROM HERCULES

(ii) *Consideration*

The consideration payable pursuant to the GD Agreement is HK\$30 million, which will be satisfied at completion of the GD Agreement by MHT procuring the Company to issue 15 million new Shares (subject to adjustment in the event of any alterations in the capital structure of the Company) to MIHL and/or its nominee(s). The GD Consideration Shares shall be issued and credited as fully paid at HK\$2.0 per Share (subject to adjustment in the event of any alterations in the capital structure of the Company).

Completion of the MIHL Agreement and the GD Agreement

Completion of the MIHL Agreement is conditional upon the following:

1. the Stock Exchange granting the listing of and permission to deal in the MIHL Consideration Shares;
2. the Independent Shareholders having approved the MIHL Agreement, the implementation of the transactions contemplated thereunder and all other matters incidental thereto, including the issue and allotment of the MIHL Consideration Shares, in accordance with the provisions of the Listing Rules; and
3. the conditions (1), (2) and (4) under the GD Agreement having been fulfilled.

Completion of the MIHL Agreement shall take place on the first Business Day immediately following the fulfillment of all conditions precedent to the MIHL Agreement (or such later date as MIHL and MHT may agree in writing prior to completion of the MIHL Agreement).

Completion of the GD Agreement is conditional upon the following:

1. the Stock Exchange granting the listing of and permission to deal in the GD Consideration Shares;
2. the Independent Shareholders having approved the GD Agreement, the implementation of the transactions contemplated thereunder and all other matters incidental thereto, including the issue and allotment of the GD Consideration Shares, in accordance with the provisions of the Listing Rules;
3. completion (as defined in the MIHL Agreement) having occurred under the MIHL Agreement in accordance with its terms; and
4. if necessary, compliance with any relevant PRC laws or regulations for the sale of the rights to the Trademarks in the PRC.

Upon completion of the MIHL Agreement, the conditions precedent to the GD Agreement would have been fulfilled. Completion of the GD Agreement shall take place on 1st November, 2005 (or such later date as MIHL and MHT may agree in writing prior to completion of the GD Agreement).

LETTER FROM HERCULES

Other material terms

(i) Licence Deeds

The licence deed that covers the use of the Trademarks in anywhere of the world outside the PRC shall be early terminated with immediate effect upon completion of the MIHL Agreement. The licence deed that covers the use of the Trademarks in the PRC shall not be renewed and shall expire in accordance with its terms on 31st October, 2005.

It is stated in the “Letter from the Board” that in the event that both of the Acquisitions do not proceed, Mr. Pan has indicated that he would consider granting new licences to allow the Group to continue to use the Trademarks on commercial terms to be negotiated and agreed by Mr. Pan and the Company upon expiry of the License Deeds.

(ii) Use of company name

Following completion of the MIHL Agreement and the GD Agreement, except for using the Trademarks as part of the company names for certain private companies controlled by Mr. Pan or their wholly-owned subsidiaries or as the name of a building located in Shaoquan, Guangdong Province, the PRC, MIHL, GME and GMCT undertake not to use the Trademarks for any other purpose. No fees will be payable by Mr. Pan or his controlled companies for using the Trademarks for the aforesaid purpose.

As advised by the Directors, completion of the GD Agreement shall take place on 1st November, 2005, being the date after the expiration date of the Licence Deed that covers the use of the Trademarks in the PRC as sufficient time have to be provided to Mr. Pan to close down all his private group business that is now using the Trademarks in the PRC. Given (i) in the interim period prior to completion of the GD Agreement, Mr. Pan will gradually close down all his private group business that is now using the Trademarks in the PRC; and (ii) upon completion of the MIHL Agreement and the GD Agreement, the Trademarks will not be used in association with vendible commodities or services provided or manufactured by Mr. Pan’s private companies, nor will they be applied to Mr. Pan’s private business’ goodwill.


We are of the view that, in general, the principal terms of the MIHL Agreement and the GD Agreement (including the considerations, the issue price of the Consideration Shares, and the arrangement of the Licence Deeds and the use of the Trademarks as part of the Company names for certain private companies controlled by Mr. Pan or their wholly-owned subsidiaries or as the name of a building located in Shaoquan, Guangdong Province, the PRC) are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM HERCULES

3. Basis of consideration

The aggregate consideration for the Acquisitions, including the PRC Rights, of HK\$210 million was determined after arm's length negotiations between the parties thereto with reference to an independent valuation of the Trademarks prepared by the Valuer, Censere (Far East) Limited, a regional financial valuation firm, further details of which are set out in Appendix IV to the Circular. The Valuer has valued the Trademarks at a total of HK\$217 million as at 30th September, 2004. The aggregate consideration for the Acquisitions represents a discount of approximately 3.2% to the Valuation.

In assessing the fairness and reasonableness of the total consideration under the MIHL Agreement and the GD Agreement, we have reviewed the relationship between brand value and market value of listed companies engaged in the digital consumer electronic products (the "Comparable Companies") which are considered to be comparable to the principal businesses of the Group. The brand values of the Comparable Companies as quoted by BusinessWeek¹ have been used in our comparison in this section.

Brand	Company	Stock code	Place of listing (Note 1)	Brand value (US\$'million) (Note 2)	Market capitalisation	Brand value/market capitalisation
					as at 3rd November, 2004 (US\$'million) (Note 3)	
SONY	SONY CORPORATION	SNE	NYSE	12,759	32,573 (Note 4)	39.2%
APPLE	Apple Computer, Inc.	AAPL	NASDAQ	6,871	21,456	32.0%
INTEL	Intel Corporation	INTC	NASDAQ	33,499	143,342	23.4%
KODAK	Eastman Kodak Company	EK	NYSE	5,231	8,853	59.1%
CANON	Canon Inc.	CAJ	NYSE	8,055	44,745 (Note 4)	18.0%
PHILIPS	Koninklijke Philips Electronics N.V.	PHIA	AEX	4,378	30,742 (Note 5)	14.2%
NOKIA	Nokia Corporation	NOK1V	HEX	24,041	73,424 (Note 5)	32.7%
HEWLETT-PACKARD	Hewlett-Packard Company (HP)	HPQ	NYSE	20,978	57,378	36.6%
SAMSUNG	Samsung Electronics Co., Ltd.	005930	KSE	12,553	60,648 (Note 6)	20.7%
					mean	30.7%
				Consideration (HK\$'million)	(HK\$'million)	
Matsunichi 松日  數碼皇后	The Company	283	HKSE	210	962	21.8%

Note:

- AEX denotes Euronext Amsterdam, HEX denotes Helsinki Stock Exchange, HKSE denotes Hong Kong Stock Exchange, KSE denotes Korea Stock Exchange, NASDAQ denotes the NASDAQ National Market, and NYSE denotes New York Stock Exchange.
- The brand values are calculated by Interbrand Corp., a brand consultancy firm founded in 1974. Interbrand Corp. projects five years of earnings and sales for the brand based on reports from analysts at J.P. Morgan Chase, Citigroup and Morgan Stanley. It then deducts operating costs, taxes, and a charge for the capital employed to arrive at the intangible earnings. A discount rate is then applied to brand earnings to get a net present value.
- Being the market capitalisation of the Comparable Companies and the Company as at the date of the MIHL Agreement and the GD Agreement.
- The market capitalisation for SONY CORPORATION (stock code: 6758) and Canon Inc. (stock code: 7751) on 3rd November, 2004 on the Tokyo Stock Exchange are not available as the market is closed for Culture Day, a national holiday. Instead, their quotes on the New York Stock Exchange have been used for comparison purposes.
- The market capitalisation of Koninklijke Philips Electronics N.V. and Nokia Corporation of approximately EUR24,135 million and EUR57,644 million, respectively, have been converted to US\$ at the conversion rate of US\$1=EUR0.785090.
- The market capitalisation of Samsung Electronics Co., Ltd. of approximately KRW67,021 billion has been converted to US\$ at the conversion rate of US\$1=KRW1,105.076.

¹ BusinessWeek, Asian Edition (9-16 August 2004)

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As indicated in the table above, the brand value/market capitalisation of the Comparable Companies as at the date of the MIHL Agreement and the GD Agreement ranges from approximately 18.0% to 59.1%. As such, the brand value/market capitalisation of 21.8% that is represented by the Consideration falls within the prevailing market range and is below the mean of approximately 30.7%.

In addition, we are advised by the Valuer that the Valuation is based on the Relief From Royalty Approach, i.e. the value of the Trademarks are assessed based on an estimated trademark royalty fee that the owner will save by owning rather than licensing the trademarks at an arm's length negotiated rate.

In addition to the assumptions set out in the Trademarks valuation report in Appendix IV to the Circular, we understand that the Valuer has made the following major assumptions in arriving at the Valuation:

- (a) Information provided by the Directors or management of the Company accurately reflects the financial and operating position of the Group;
- (b) There will be no adverse changes to the operation of the Group;
- (c) The availability of financing will not be a constraint on the future growth of the Group's operation;
- (d) There will not be any material change in the political and/or economic conditions under which the Group operates that may adversely affect the valuation of the Trademarks;
- (e) the Group has sufficient operational resources to support its ongoing operation; and
- (f) There will be no major changes in the foreign exchange policy of the RMB and the other major currencies that the Group is dependent upon that would significantly affect the financial position and forecast of the Company.

We understand that the Valuer has (i) studied the historical performance of the Group for the two financial years ended 31st March, 2004; (ii) discussed with management of the Group about, amongst other things, the operation, the background of its major customers, the future prospects of the businesses of the Group using the Trademarks, and the seasonal effect of the industry; (iii) made relevant adjustments in the valuation for the lost potential royalty revenue which any acquirer could not earn during the terms of the Licence Deeds expiring on 31st October, 2005; (iv) not considered the potential licensing royalty income of the Trademarks to be generated from products under classes 7 and 11 because the products currently produced by the Group do not fall within these two classes; (v) applied a 3% royalty rate in the Valuation as the products produced and sold by the Company under the Trademarks are high-end consumer electronic products with higher profit margin, and the Trademarks can be applied to a wide range of products; (vi) taken into consideration the EV/EBITDA ratio as at 30th September, 2004 of the Group and other comparable listed companies engaged in the manufacturing and sales of MP3 players or data storage devices to the Group to determine the capitalisation multiple of 7.3 times; and (vii) used the return on equity of the Group as at 31st March, 2004 to arrive at a discount rate of 19.7% for the proposed Acquisitions. In the course of our discussions with the Valuer, nothing material has come to our attention that would lead us to believe that the Valuation was not prepared on a reasonable basis nor reflect estimates and assumptions which have been arrived at after due and careful consideration. Therefore, we consider that the abovementioned assumptions adopted by the Valuer in the Valuation are fair and reasonable.

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Having considered (i) the basis of the Valuation by the Valuer; and (ii) the major assumptions adopted in the Valuation, we have no reason to doubt the fairness and appropriateness of the assumptions, methodology and basis of valuation adopted by the Valuer in arriving at the Valuation. Based on the above, we are of the view that the basis for determining the Consideration is therefore fair and reasonable.

4. Reasons for and benefits of the MIHL Agreement and the GD Agreement

Exclusive use of the Trademarks

Prior to the entering into of the MIHL Agreement and the GD Agreement, the Group was granted the non-exclusive use of the Trademarks under the Licence Deeds which will expire on 31st October, 2005, and the Trademarks are currently being used on certain other consumer electronic products, including audio visual telephones produced and traded in the PRC by companies controlled by Mr. Pan. It is stated in the “Letter from the Board” that following completion of the MIHL Agreement and the GD Agreement, Mr. Pan will cease to use the Trademarks on any of the products produced or traded by him or his controlled companies or for any other purposes except as part of the company names or the name of a building as set out in the above sub-paragraph headed “Use of company name”.

We are advised by the Directors that since the Group strategically diversified into digital consumer electronic products the revenue generated from the manufacturing and trading of the branded digital consumer electronic products bearing the Trademarks accounted for approximately 21.6% and 68.5% of the audited turnover of the Group for the financial years 2003 and 2004, respectively, and that they consider the Trademarks valuable assets to the Group. As the Trademarks are crucial to the business of the Group, the Board considers that it is in the long term interest of the Group to acquire the full ownership and exclusive use of the Trademarks through the Acquisitions.

As stated in the Company’s annual report for the year ended 31st March, 2004, in view of the enormous growing demand for digital consumer electronic products, the Group has strengthened its existing R&D team, focusing on product enhancement and is planning to launch new generations of digital consumer electronic products on very tight intervals. We understand that market competition for digital consumer electronic products is highly intensive, and brand name/trademarks are crucial to such products’ market share, position and profit margin. We have confirmed with the Directors that the Group intends to launch new products (details of which is set out in the section headed “Business Review and Future Prospect of the Group” in the “Letter from the Board”) bearing the Trademarks (under class 9) into the market in 2005 and are of the view that exclusive use of the Trademarks will undoubtedly contribute to Shareholders’ value.

We are of the view that the Group’s business is increasingly reliant on the products bearing the Trademarks and, therefore, the importance of the Trademarks to the Group as a whole. We consider that the proposed Acquisitions will eliminate the business risk of the Group of not being able to secure the exclusive rights to use the Trademarks upon expiration of the Licence Deeds and are therefore beneficial to the Company and the Shareholders as a whole.

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Royalty fee

As an alternative to eliminating the business risk of not being able to obtain the exclusive rights to use the Trademarks upon expiration of the Licence Deeds of the digital consumer electronic products business, the Group may, instead of acquiring the Trademarks, pay the beneficial owner of the Trademarks a royalty for its use. It is stated in the “Letter from the Board” that in the event that the Acquisitions do not proceed, the Board will, before expiry of the Licence Deeds, approach Mr. Pan to negotiate the renewal of the Licence Deeds or a new licence deed to allow the Group to continue to use the Trademarks. We have discussed with Mr. Pan, the ultimate owner of the Trademarks, in this regard. In the event that the proposed Acquisitions do not proceed, he intends to charge the Group a royalty payment for the use of the Trademarks based on commercial terms, which would be a percentage of the product sales. The percentage will vary depending on the Trademarks’ strength and visibility, and the frequency with which new, acceptable products enter the market. We understand that trademarks closely identified with consumer products will generally command high royalty rates – much higher than those for goods and services in the industrial sector².

We are of the view that the royalty payment approach would inevitably reduce the profit margins of the Group’s products bearing the Trademarks and result in lower profits and reduced cashflow for the Group. On the other hand, if the proposed Acquisitions were completed, the Group would have legal and economic rights of the Trademarks which would be recognised as its intangible assets.

The Directors have confirmed to us that upon completion of the MIHL Agreement and the GD Agreement, the Trademarks may be renewed or extended by the Group upon expiration on payment of the necessary renewal fees. As advised by the Directors, such trademark registration fees and annual administration costs are immaterial.

It is stated in the “Letter from the Board” that the Board resolved to acquire the Trademarks on the terms of the MIHL Agreement and the GD Agreement prior to expiry of the Licence Deeds as it is uncertain whether the same opportunity would be available to the Group when the Licence Deeds expire on 31st October, 2005.

Broader range of products

As stated in the “Letter from the Board”, the Trademarks are registered under classes 7, 9 and 11. According to the Valuer, definitions of the above classes are universally accepted and are set out below:

Class 7	Machines and machine tools; motors and engines (except for land vehicles); machine coupling and transmission components (except for land vehicles); agricultural implements other than hand-operated; incubators for eggs.
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² Zareer Pavri, Senior Manager, Price Waterhouse, *Where The Value In A Trademark Lies* (CA Magazine, February 1987)

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- Class 9 Scientific, nautical, surveying, photographic, cinematographic, optical, weighing, measuring, signaling, checking (supervision), life-saving and teaching apparatus and instruments; apparatus and instruments for conducting, switching, transforming, accumulating, regulating or controlling electricity; apparatus for recording, transmission or reproduction of sound or images; magnetic data carriers, recording discs; automatic vending machines and mechanisms for coin operated apparatus; cash registers; calculating machines, data processing equipment and computers; fire-extinguishing apparatus.
- Class 11 Apparatus for lighting, heating, steam generating, cooking, refrigerating, drying, ventilating, water supply and sanitary purposes.

We are advised by the Directors that the digital consumer electronic products currently manufactured and traded by the Group fall under the class 9 registration, in countries including Hong Kong and the PRC. However, the Group is granted the non-exclusive use of the Trademarks under the Licence Deeds on MP3 players and certain consumer electronic products in anywhere in the world for a period of three years from 1st November, 2002 to 31st October, 2005 at an aggregate nominal fee of HK\$2.00 per annum. It is stated in the “Letter from the Board” that the Company currently does not have any plan to expand its product range into products falling under Class 7 and Class 11 registration but will consider expansion of its product range when suitable opportunities arise. We are of the view that upon completion of the MIHL Agreement and the GD Agreement, the Group would own, and have exclusive use of, a wider range of trademarks which would give the Group more flexibility to develop a broader range of products.

Early Termination of the Licence Deed

It is stated in the “Letter from the Board” that the licence deed that covers the use of the Trademarks in anywhere in the world outside the PRC shall be early terminated with immediate effect upon completion of the MIHL Agreement. It follows, therefore, the Group is not entitled to prevent the Trademarks from being used by other possible licensees before expiry of the Licence Deed if the proposed Acquisitions do not proceed.

The licence deed that covers the use of the Trademarks in the PRC shall not be renewed and shall expire in accordance with its terms on 31st October, 2005. This ties in with completion of the GD Agreement which is expected to take place on 1st November, 2005. It is stated in the “Letter from the Board” that in the event the Acquisitions do not proceed, Mr. Pan has indicated that he would consider granting new licences to allow the Group to continue to use the Trademarks on commercial terms to be agreed by Mr. Pan and MHT upon expiry of the Licence Deeds.

It is also stated in the “Letter from the Board” that the Board resolved to acquire the Trademarks on the terms of the MIHL Agreement and the GD Agreement prior to expiry of the Licence Deeds as it is uncertain whether the same opportunity would be available to the Group when the Licence Deeds expire on 31st October, 2005.

As the Trademarks are crucial to the business of the Group, we consider that it is in the long term interest of the Group and the Shareholders as a whole to terminate the Licence Deed early in order to prevent the Trademarks from being used by any other possible licensees. In particular, the Group intends to launch new products bearing the Trademarks into the market in 2005.

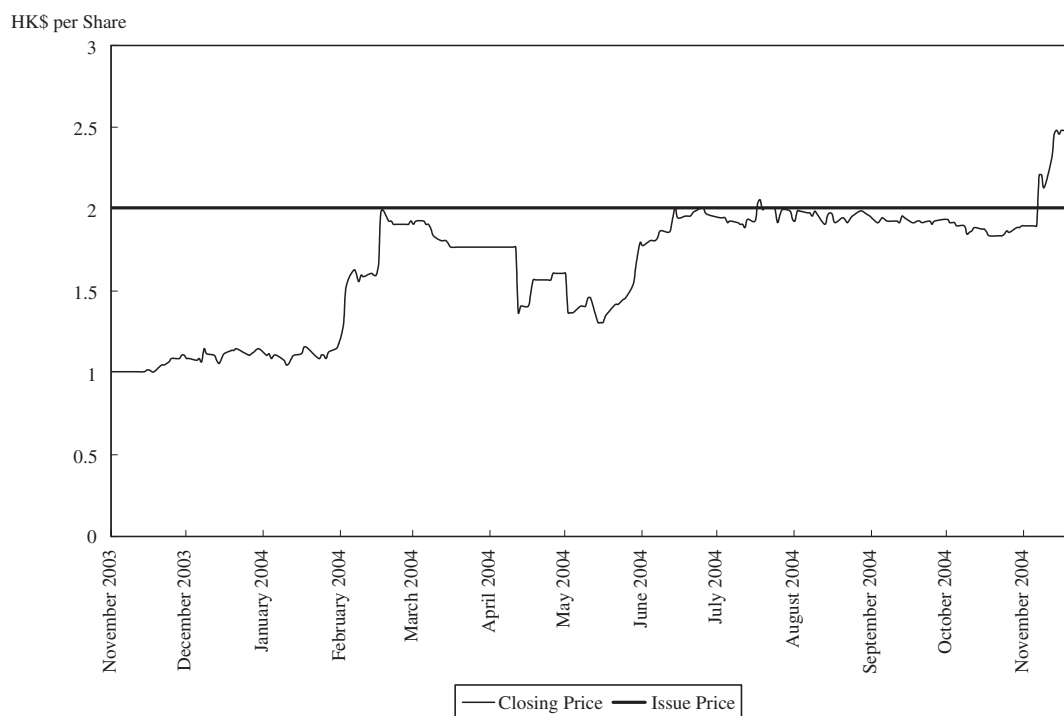
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5. Issue price of the MIHL Consideration Shares and the GD Consideration Shares

The issue price of HK\$2.0 per MIHL Consideration Shares and the GD Consideration Shares has been determined after arms' length negotiations between the parties of the MIHL Agreement and the GD Agreement. The Consideration Shares, when issued, will rank pari passu in all respects with all the existing Shares in issue, including the right to receive any dividend or distribution declared after the date of completion of the MIHL Agreement and the GD Agreement.

The chart below shows the issue price of HK\$2.0 per Consideration Share as compared to the daily closing prices of Shares as quoted on the Stock Exchange from 4th November, 2003 to the "Last Trading Date (the "Relevant Period")".

Chart I: Daily closing prices of the Shares during the Relevant Period



As set out in the chart above, closing prices of the Shares were below HK\$2.0 on all of the trading days during the Relevant Period, except for 17th June, 2004, 28th June, 2004, 20th July, 2004, 21st July, 2004, 23rd July, 2004 and 26th July, 2004, the closing prices of the Shares on which were HK\$2.00, HK\$2.00, HK\$2.025, HK\$2.05, HK\$2.00 and HK\$2.00, respectively.

The issue price of HK\$2.0 per MIHL Consideration Share and the GD Consideration Share represents:

- a premium of approximately 5.8% over the closing price of HK\$1.89 per Share as quoted on the Stock Exchange on the Last Trading Date;

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- a premium of approximately 7.0% over the average closing price of approximately HK\$1.87 per Share based on the closing price of the Share as quoted on the Stock Exchange over the last 5 trading days up to and including the Last Trading Date;
- a premium of approximately 8.1% over the average closing price of approximately HK\$1.85 per Share based on the closing price of the Share as quoted on the Stock Exchange over the last 10 trading days up to and including the Last Trading Date;
- a premium of approximately 6.4% over the average closing price of approximately HK\$1.88 per Share based on the closing price of the Share as quoted on the Stock Exchange over the last 30 trading days up to and including the Last Trading Date;
- a discount of approximately 12.1% to the closing price of HK\$2.275 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- a discount of approximately 16.1% to the average closing price of approximately HK\$2.385 per Share based on the closing price of the Share as quoted on the Stock Exchange over the last 5 trading days up to and including the Latest Practicable Date;
- a discount of approximately 17.7% to the average closing price of approximately HK\$2.43 per Share based on the closing price of the Share as quoted on the Stock Exchange over the last 10 trading days up to and including the Latest Practicable Date;
- a discount of approximately 20.1% to the average closing price of approximately HK\$2.504 per Share based on the closing price of the Share as quoted on the Stock Exchange over the last 30 trading days up to and including the Latest Practicable Date;

Taking into account the fact that the issue price of HK\$2.0 per Consideration Share is higher than the closing prices on most of the trading days during the Relevant Period and the premiums represented by the issue price of HK\$2.0 per Consideration Share as stated above, we consider that the issue price is fair and reasonable so far as the Independent Shareholders are concerned.

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6. Undertakings

Following completion of the MIHL Agreement and the GD Agreement, except for using the Trademarks as part of the company names for certain private companies controlled by Mr. Pan or their wholly-owned subsidiaries or as the name of a building located in Shaoquan, Guangdong Province, the PRC, MIHL, GME and GMCT undertake not to use the Trademarks for any other purpose.

7. Interim period arrangement

It is stated in the "Letter from the Board" that in the interim period prior to completion of the GD Agreement, Mr. Pan will close down all his private group business that is now using the Trademarks in the PRC. The Directors, including the independent non-executive Directors, do not consider this interim measure would have any material impact on the business and operation of the Group as the product types being manufactured by Mr. Pan's private companies and the Group are different and there is no direct competition between the two groups.

8. Financial effects of the proposed Acquisitions on the Group

The financial effects on the Group as a result of the Acquisitions are analysed below:

(i) *Cash position*

As at 30th September, 2004, the Group had a cash and bank balance of approximately HK\$275.8 million (excluding the pledged bank deposits of approximately HK\$600,000). As the consideration under the MIHL Agreement will be partially satisfied in cash, and the Group will be required to pay the legal and professional costs of approximately HK\$1.9 million by internal source of funds, and assuming the proposed Acquisitions had been completed on 30th September, 2004, the cash and bank balance of the Group would have been reduced by approximately HK\$21.9 million, or approximately 7.9%, to approximately HK\$253.9 million.

(ii) *Working capital*

The unaudited condensed consolidated balance sheet of the Group as at 30th September, 2004 indicates that the Group had working capital of approximately HK\$463.2 million. Assuming the proposed Acquisitions had been completed on 30th September, 2004, the working capital of the Group would have been reduced by HK\$21.9 million, or approximately 4.7%, to approximately HK\$441.3 million.

(iii) *Gearing*

According to the Company's interim report for the six months ended 30th September, 2004, the Group's gearing ratio (defined as total bank borrowings divided by shareholders' funds) was approximately 0.51. Assuming the proposed Acquisitions had been completed on 30th September, 2004, the Group's gearing ratio would have been improved to approximately 0.40 as a result of the enlarged capital base.

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(iv) *Net asset value and net tangible asset value*

As reference to the “pro forma statement of unaudited assets and liabilities as at 30th September, 2004” in Appendix III to the Circular, the unaudited pro forma adjusted consolidated net asset value (“NAV”) and the unaudited pro forma adjusted consolidated net tangible asset value (“NTA”) prior to and upon completion of the proposed Acquisitions are as follows:

	Before completion	After completion	Percentage change
NAV	HK\$710.1 million	HK\$900.1 million	26.7%
NAV per Share	HK\$1.39	HK\$1.49	7.2%
NTA	HK\$710.1 million	HK\$688.2 million	(3.1)%
NTA per Share	HK\$1.39	HK\$1.14	(18.0)%
Number of Shares in issue	509,086,683	604,086,683	

(v) *Earnings*

As confirmed by the Directors, the table below depicts the effect of the Acquisitions on earnings per Shares based on the audited consolidated result of the Group for the year ended 31st March, 2004:

	Before completion	After completion	Percentage change
Audited consolidated net profit for the year ended 31st March, 2004	HK\$71.08 million	HK\$71.08 million	0.0%
Earnings per Share	HK\$0.140	HK\$0.118	(15.7)%
Number of Shares in issue	509,086,683	604,086,683	

As shown above, upon completion of the MIHL Agreement and the GD Agreement the Group’s NTA per Share and earnings per Share would have decreased by approximately 18.0% and approximately 15.7%, respectively. We are of the view that such dilution effect is inevitable as a result of the issue of new Shares. However, Shareholders should note that in the event that the proposed Acquisitions do not proceed, the Group will most likely be required to begin payments of royalty fees based on a percentage of sales upon expiry of the Licence Deeds, which will also result in lower earnings for the Group. The royalty fees will also have an adverse impact on the Group’s cashflow and working capital.

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9. Dilution effect

In percentage term, the MIHL Consideration Shares and the GD Consideration Shares represent approximately:

MIHL Consideration Shares	GD Consideration Shares	Total	
15.7%	3.0%	18.7%	of the existing issued ordinary share capital of the Company
13.6%	2.5%	16.1%	of the issued ordinary share capital of the Company as enlarged by the issuance of all the MIHL Consideration Shares
13.2%	2.5%	15.7%	of the issued ordinary share capital of the Company as enlarged by the issuance of all the MIHL Consideration Shares and the GD Consideration Shares

A table depicting the respective shareholding structure of the Company as a result of the proposed Acquisitions is set out in the section headed “Changes in Shareholding Structure” in the “Letter from the Board”. As a result of the issue of the GD Consideration Shares and MIHL Consideration Shares, the public shareholders of the Company will be diluted in aggregate by approximately 5.2%. The Directors consider that, by issuing the Consideration Shares, the Company would be able to pursue the Acquisitions without materially affecting the working capital of the Group.

We consider the issue of the Consideration Shares to satisfy approximately 90.5% of the total consideration to be a prudent means of financing as in addition to strengthening the equity base, it will not utilise the available resources of the Group which could be deployed to develop and market new products and as working capital.

We consider preservation of cash and the increased earnings potential with the Trademarks to be core factors in determining the fairness and reasonableness of the total consideration contemplated under the MIHL Agreement and the GD Agreement. Having considered the contemplated benefits to the Group as discussed in the paragraph headed “Reasons for and benefits of the MIHL Agreement and the GD Agreement” above, we consider that the dilution effect on the shareholding as aforesaid is acceptable so far as the Independent Shareholders generally are concerned.

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RECOMMENDATION

Having considered the principal factors discussed above, in summary:

1. the business of the Group is heavily reliant on the Trademarks; the sale of digital consumer electronic products bearing the Trademarks accounted for approximately 21.6%, 68.5% and 76.9% of the turnover of the Group for the financial years 2003 and 2004, and the six months ended 30th September, 2004, respectively;
2. the strong sales growth and the underlying profit generating power of the products bearing the Trademarks as reflected by the turn-around performance of the Group for the year ended 31st March, 2004 and for the six months ended 30th September, 2004;
3. upon completion of the MIHL Agreement and the GD Agreement, the Group will have exclusive use of the Trademarks and the potential to develop a broader range of products under the Trademarks;
4. the proposed Acquisitions represent a good opportunity for the Group to eliminate the business risk of not being able to obtain exclusive rights to use the Trademarks upon expiration of the Licence Deeds;
5. by owning the Trademarks, the Company is relieved from the necessity of having to pay the owner of the Trademarks a royalty for its use, which is based on a percentage of sales that will not only reduce the profit margin but also cashflow of the Group;
6. the Group will own the Trademarks, which are considered as valuable assets by the Directors, as its intangible assets upon completion of the Acquisitions;
7. the issue price of HK\$2.0 per Consideration Share is higher than the closing prices on most of the trading days during the Relevant Period;
8. by issuing the Consideration Shares, the Company would be able to pursue the Acquisitions without materially affecting the working capital of the Group as compared with if the consideration was wholly satisfied by cash; and
9. the equity base of the Company will be strengthened after completion of the proposed Acquisitions;

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we are of the opinion that the proposed Acquisitions are in the interests of the Company and the Shareholders as a whole and that the terms of the proposed Acquisitions are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we would recommend the Independent Board Committee to advise the Independent Shareholders, as well as the Independent Shareholders, to vote in favour of the resolution to approve the proposed Acquisitions at the upcoming Extraordinary General Meeting.

Yours faithfully,

For and on behalf of

Hercules Capital Limited

Louis Koo

Managing Director

Warren Cheung

Managing Director

1. SUMMARY OF AUDITED FINANCIAL STATEMENTS

The following is a summary of the audited consolidated income statement of the Group for the two years ended 31st March, 2004, the audited consolidated balance sheet of the Group and the audited balance sheet of the Company as at 31st March, 2004 and 2003, the audited consolidated statement of changes in equity and audited consolidated cash flow statement of the Group for the two years ended 31st March, 2004 together with accompanying notes extracted from the annual report of the Company for the year ended 31st March, 2004:

Consolidated Income Statement

For the year ended 31st March, 2004

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover	4	613,059	438,381
Cost of sales		<u>(444,544)</u>	<u>(313,371)</u>
Gross profit		168,515	125,010
Other operating income	6	2,533	10,430
Selling and distribution costs		(41,759)	(76,675)
Administrative expenses		(56,769)	(55,431)
Other operating expenses	7	–	(2,248)
Impairment loss recognised in respect of other assets		–	(520)
Profit from operations	8	72,520	566
Finance costs	11	(3,872)	(2,976)
Gain on disposal of discontinuing operations		10,083	1,263
Loss on disposal of subsidiaries		–	(61)
Allowance for doubtful recovery of amounts due from associates		–	(217)
Share of results of associates		–	(100)
Profit (loss) before taxation		78,731	(1,525)
Taxation	12	<u>(7,653)</u>	<u>(1,071)</u>
Profit (loss) before minority interests		71,078	(2,596)
Minority interests		–	31
Net profit (loss) for the year		<u><u>71,078</u></u>	<u><u>(2,565)</u></u>
Earnings (loss) per share	13		
– basic		<u><u>21.09 cents</u></u>	<u><u>(2.00) cents</u></u>
– diluted		<u><u>21.04 cents</u></u>	<u><u>N/A</u></u>

Consolidated Balance Sheet

At 31st March, 2004

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	14	236,272	60,004
Interests in unconsolidated subsidiaries	16	–	7,525
Interest in associates	17	–	–
Investments in securities	18	–	–
Other assets	19	90	90
		<u>236,362</u>	<u>67,619</u>
Current assets			
Inventories	20	87,142	63,841
Machinery held for sale		38,378	–
Trade and other receivables	21	227,194	80,859
Pledged bank deposits		600	600
Bank balances and cash		191,560	39,144
		<u>544,874</u>	<u>184,444</u>
Current liabilities			
Trade and other payables	22	67,709	21,037
Bills payable		59	4,635
Amount due to ultimate holding company	23	1,945	2,215
Amount due to a related company	24	11,700	–
Taxation payable		5,895	1,231
Bank borrowings – amount due within one year	25	80,744	64,240
Other borrowing	26	–	5,000
Obligations under finance leases – amount due within one year	27	12,030	79
		<u>180,082</u>	<u>98,437</u>
Net current assets		<u>364,792</u>	<u>86,007</u>
Total assets less current liabilities		<u>601,154</u>	<u>153,626</u>
Capital and reserves			
Share capital	28	25,454	7,071
Reserves		551,124	138,763
		<u>576,578</u>	<u>145,834</u>
Non-current liabilities			
Amounts due to unconsolidated subsidiaries	16	–	7,525
Obligations under finance leases – amount due after one year	27	24,395	267
Deferred taxation	31	181	–
		<u>24,576</u>	<u>7,792</u>
		<u>601,154</u>	<u>153,626</u>

Balance Sheet

At 31st March, 2004

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Non-current assets			
Interests in subsidiaries	15	450,071	55,001
Other assets	19	<u>90</u>	<u>90</u>
		<u>450,161</u>	<u>55,091</u>
Current assets			
Other receivables		5	–
Amounts due from subsidiaries		56,916	80,561
Bank balances and cash		<u>173</u>	<u>153</u>
		<u>57,094</u>	<u>80,714</u>
Current liabilities			
Other payables		555	–
Amount due to a related company	24	<u>11,700</u>	<u>–</u>
		<u>12,255</u>	<u>–</u>
Net current assets		<u>44,839</u>	<u>80,714</u>
Total assets less current liabilities		<u><u>495,000</u></u>	<u><u>135,805</u></u>
Capital and reserves			
Share capital	28	25,454	7,071
Reserves	30	<u>469,546</u>	<u>128,734</u>
		<u><u>495,000</u></u>	<u><u>135,805</u></u>

Consolidated Statement of Changes in Equity

For the year ended 31st March, 2004

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i> <i>(Note 30)</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 1st April, 2002	5,893	329,237	1,263	–	(209,685)	126,708
Issue of new shares	1,178	22,382	–	–	–	23,560
Expenses incurred in connection with issue of shares	–	(606)	–	–	–	(606)
Release upon disposal of subsidiaries	–	–	(1,263)	–	–	(1,263)
Net loss for the year	–	–	–	–	(2,565)	(2,565)
Capitalisation of other loans	–	–	–	3,605	(3,605)	–
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31st March, 2003	7,071	351,013	–	3,605	(215,855)	145,834
Issue of new shares (Note 28)	18,383	346,464	–	–	–	364,847
Expenses incurred in connection with issue of shares	–	(6,326)	–	–	–	(6,326)
Exchange gain arising on translation of subsidiaries outside Hong Kong not recognised in the income statement	–	–	1,145	–	–	1,145
Net profit for the year	–	–	–	–	71,078	71,078
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31st March, 2004	<u>25,454</u>	<u>691,151</u>	<u>1,145</u>	<u>3,605</u>	<u>(144,777)</u>	<u>576,578</u>

Consolidated Cash Flow Statement

For the year ended 31st March, 2004

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating activities		
Profit (loss) before taxation	78,731	(1,525)
Adjustments for:		
Interest income	(859)	(682)
Finance costs	3,872	2,976
Depreciation and amortisation of property, plant and equipment	9,372	11,612
Amortisation of intangible assets	–	253
Amortisation of publishing library	–	725
Impairment loss of other assets	–	520
Loss on disposal of property, plant and equipment	57	343
Allowance for doubtful recovery of amounts due from associates	–	217
Allowance for doubtful trade receivable	–	1,270
Other loans waived	–	(3,605)
Release of negative goodwill	–	(237)
Gain on disposal of subsidiaries	(10,083)	(1,202)
Share of results of associates	–	100
Operating cash flows before movements in working capital	81,090	10,765
Increase in inventories	(67,850)	(4,524)
Increase in trade and other receivables	(167,581)	(66,483)
Decrease in loans receivable	–	1,549
Increase in trade and other payables	67,253	2,582
Decrease in bills payable	(4,576)	(4,938)
Decrease in amount due to ultimate holding company	(270)	–
Effect on foreign exchange rate changes	1,180	–
Cash used in operations	(90,754)	(61,049)
Hong Kong Profits Tax paid	(2,808)	(36)
Net cash used in operations	(93,562)	(61,085)

Consolidated Cash Flow Statement

For the year ended 31st March, 2004

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Investing activities			
Interest received		859	682
Increase in machinery held for sale		(23,612)	–
Purchase of property, plant and equipment		(71,956)	(3,730)
Proceeds from disposal of property, plant and equipment		267	236
Advance to an associate		–	(452)
(Increase) decrease in pledged bank deposits		(25,220)	3,969
Acquisition of a subsidiary (net of cash and cash equivalents acquired)	32	(66,300)	(31,594)
Disposal of subsidiaries (net of cash and cash equivalents disposed)	33	2,691	66,706
		<u> </u>	<u> </u>
Net cash (used in) from investing activities		<u>(183,271)</u>	<u>35,817</u>
Financing activities			
Interest and finance charges paid		(3,872)	(2,945)
Proceeds from issue of shares		364,847	23,560
Expenses incurred in connection with issue of shares		(6,326)	(606)
New bank borrowings raised		3,873	93,480
New other borrowings raised		–	5,000
Repayment of bank loans		(53)	(9,543)
Net cash inflow of trust receipts loan		76,884	416
Repayment of obligations under finance leases		(1,104)	(275)
Repayment of other loans		(5,000)	(23,396)
Advance from ultimate holding company		–	2,215
Repayment of advance from a former related company		–	(32,480)
		<u> </u>	<u> </u>
Net cash from financing activities		<u>429,249</u>	<u>55,426</u>
Net increase in cash and cash equivalents		152,416	30,158
Cash and cash equivalents at beginning of the year		39,144	8,986
		<u> </u>	<u> </u>
Cash and cash equivalents at end of the year, represented bank balances and cash		<u>191,560</u>	<u>39,144</u>

Notes to the Financial Statements

For the year ended 31st March, 2004

1. GENERAL

The Company is incorporated in Hong Kong with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The ultimate holding company of the Company is Jade Forest Limited ("Jade Forest"), a limited liability company incorporated in the British Virgin Islands.

The Company is an investment holding company. The activities of its principal subsidiaries at 31st March, 2004 are set out in note 43.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARD AND CHANGE IN ACCOUNTING POLICY

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"), the term HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP") and Interpretations approved by the HKSA:

SSAP 12 (Revised)	"Income taxes"
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The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred taxation. In the previous years, partial provision was made for deferred taxation using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred taxation is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of SSAP 12 (Revised) has resulted in a decrease in the net profit for the year ended 31st March, 2004 of HK\$181,000, but has no material effect on the results for prior accounting periods. Accordingly, no prior period adjustment has been required.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st March each year.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

In the circumstances where a company is a subsidiary but the Group does not have unilateral control over it nor is able to exercise significant influence over the financial and operating policy in that subsidiary, the interest in that subsidiary is accounted for as investment in securities.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition.

Goodwill is capitalised and amortised on a straight-line basis over its useful economic life of not more than twenty years. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the consolidated balance sheet as a separate intangible asset.

On disposal of a subsidiary or an associate, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition over the cost of acquisition.

Negative goodwill is presented as a deduction from assets and is released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of that associate. Negative goodwill arising on the acquisition of a subsidiary is presented separately in the consolidated balance sheet as a deduction from assets.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and amortisation, and any impairment losses.

Depreciation and amortisation are provided to write off the cost of assets over their estimated useful lives and after taking into account the estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold land	Over the unexpired term of the relevant lease
Buildings	Over the estimated useful life of 20 years, or the unexpired term of the relevant lease, whichever is shorter
Plant and machinery	10%-20%
Leasehold improvements	Over the estimated useful life of 5 years or the unexpired term of the relevant lease, whichever is shorter
Furniture, fixtures and equipment	20%-33 $\frac{1}{3}$ %
Motor vehicles	20%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of that asset and is recognised in the income statement.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment losses.

Investments in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associate for the year. In the consolidated balance sheet, interest in an associate is stated at the Group's share of the net assets of its associate plus unamortised goodwill (less negative goodwill) arising on acquisition, less any identified impairment losses.

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in reserves, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in net profit or loss for the period.

Club debentures

Club debentures are stated at cost less any identified impairment losses.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity.

When no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Leases

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the rentals are charged to the income statement on a straight-line basis over the relevant lease term.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred taxation.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible.

Deferred taxation is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred taxation liabilities are generally recognised for all taxable temporary differences, and deferred taxation assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred taxation liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred taxation assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred taxation is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred taxation is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Revenue from sale of newspapers and other publications is recognised when the products are delivered and title has passed to distributors or dealers and the Group retains no significant obligation. Allowances for estimated future returns and exchanges are recorded in the period in which the related revenue is recognised.

Advertising income is recognised on the publication date.

Income from provision of printing services is recognised when the services are rendered.

Management fee is recognised when the services are rendered.

Royalty income is recognised on a straight line basis over the terms of the relevant leases.

Dividend income from investments is recognised when the Group's rights to receive dividend payment have been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange difference arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or expenses in the period in which the operation is disposed of.

Retirement benefits costs

Payments to defined contribution retirement benefit plans, state-managed retirement benefit schemes and the mandatory provident fund scheme are charged as an expense as they fall due.

4. TURNOVER

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover for the year comprises:		
Continuing operations		
Sales of digital consumer products	<u>570,235</u>	<u>94,804</u>
Discontinuing operations		
Apparel trading	42,824	151,172
Marine product trading	–	48,980
Sales of newspapers and publications	–	70,048
Advertising income	–	65,082
Printing income	–	7,178
Management fee income	–	1,117
	<u>42,824</u>	<u>343,577</u>
	<u><u>613,059</u></u>	<u><u>438,381</u></u>

5. BUSINESS AND GEOGRAPHICAL SEGMENT

Business segments

The Group currently has one business segment of development and sale of digital consumer products. In the current year, the Group was also involved in the apparel trading operations which was discontinued since 26th September, 2003 (note 9). For the year ended 31st March, 2003, the Group was also involved in printing and publishing operation and marine product trading. These two operations were discontinued since 22nd July, 2002 and 28th January, 2003 respectively (note 9).

Segment information about these businesses for the year ended 31st March, 2004 is set out as follows:

For the year ended 31st March, 2004

	<u>Continuing operations</u> Development and sale of digital consumer products <i>HK\$'000</i>	<u>Discontinuing operations</u> Apparel trading <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER			
External sales	<u>570,235</u>	<u>42,824</u>	<u>613,059</u>
RESULT			
Segment result	<u>77,842</u>	<u>(2,763)</u>	75,079
Interest income			859
Unallocated corporate expenses			<u>(3,418)</u>
Profit from operations			72,520
Finance costs			(3,872)
Gain on discontinuing operations	–	10,083	<u>10,083</u>
Profit before taxation			78,731
Taxation			<u>(7,653)</u>
Profit before minority interests			<u>71,078</u>
OTHER INFORMATION			
Capital additions	186,417	722	187,139
Depreciation and amortisation	8,880	492	9,372
Loss on disposal of property, plant and equipment	<u>57</u>	<u>–</u>	<u>57</u>

At 31st March, 2004, the Group has only one business segment of development and sale of digital consumer products and therefore no analysis of segment assets and liabilities is presented.

Segment information about these businesses for the year ended 31st March, 2003 is set out as follows:

For the year ended 31st March, 2003

	<u>Continuing operations</u>	<u>Discontinuing operations</u>			Consolidated <i>HK\$'000</i>
	Development and sale of digital consumer products <i>HK\$'000</i>	Apparel trading <i>HK\$'000</i>	Printing and publishing <i>HK\$'000</i>	Marine product trading <i>HK\$'000</i>	
TURNOVER					
External sales	94,804	151,172	143,425	48,980	438,381
RESULT					
Segment result	15,981	(975)	(14,351)	(417)	238
Interest income					682
Unallocated corporate expenses					(354)
Profit from operations					566
Finance costs					(2,976)
Gain on discontinuing operations	-	-	-	1,263	1,263
Loss on disposal of subsidiaries					(61)
Allowance for doubtful recovery of amounts due from associates	-	-	(217)	-	(217)
Share of results of associates	-	-	(100)	-	(100)
Loss before taxation					(1,525)
Taxation					(1,071)
Loss before minority interests					(2,596)

	<u>Continuing operations</u>	<u>Discontinuing operations</u>				Consolidated
	Development and sale of digital consumer products <i>HK\$'000</i>	Apparel trading <i>HK\$'000</i>	Printing and publishing <i>HK\$'000</i>	Marine product trading <i>HK\$'000</i>	Others <i>HK\$'000</i>	
At 31st March, 2003						
ASSETS						
Segment assets	141,735	60,256	-	-	-	201,991
Interests in unconsolidated subsidiaries	-	-	-	-	7,525	7,525
Unallocated corporate assets						42,547
Consolidated total assets						<u>252,063</u>
LIABILITIES						
Segment liabilities	(9,821)	(12,762)	-	-	-	(22,583)
Amounts due to unconsolidated subsidiaries	-	-	-	-	(7,525)	(7,525)
Unallocated corporate liabilities						(76,121)
Consolidated total liabilities						<u>(106,229)</u>
OTHER INFORMATION						
Capital additions	60,875	890	1,582	108	-	63,455
Depreciation and amortisation	1,782	1,364	9,285	159	-	12,590
Loss on disposal of property, plant and equipment	-	79	137	127	-	343
Impairment losses recognised	380	-	-	140	-	520
Allowance for doubtful recovery of amounts due from associates	-	-	217	-	-	217
Allowance for doubtful receivables	-	42	1,044	446	(262)	1,270

Geographical segments

The Group's operations are mainly located in Hong Kong and other regions of the People's Republic of China (the "PRC"). The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services.

	Turnover by geographical market	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
The USA	228,970	-
Other regions in the PRC	347,016	160,267
Hong Kong	36,898	278,114
Other regions	175	-
	<u>613,059</u>	<u>438,381</u>

Revenue from the Group's discontinuing apparel operations has derived from Hong Kong (2004: HK\$23,935,000; 2003: HK\$103,647,000) and other regions in the PRC (2004: HK\$18,889,000; 2003: HK\$47,525,000). Revenue derived in Hong Kong of 2003 included revenue from discontinued printing and publishing operations of HK\$143,425,000.

The following is an analysis of the carrying amount of consolidated total assets and additions to property, plant and equipment analysed by the geographical areas in which the assets are located:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Carrying amount of consolidated total assets		
The USA	78,742	–
Other regions in the PRC	545,930	70,501
Hong Kong	154,641	181,562
Other regions	1,923	–
	<u>781,236</u>	<u>252,063</u>
Additions to property, plant and equipment and intangible assets		
Other regions in the PRC	180,355	59,316
Hong Kong	5,943	4,139
Other regions	841	–
	<u>187,139</u>	<u>63,455</u>
6. OTHER OPERATING INCOME		
Other operating income for the year includes the following:		
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interest received on bank deposits	859	652
Royalty income	663	1,984
Other loans waived by former shareholders of a subsidiary	–	3,605
Negative goodwill released	–	237
Interest received on advances to third parties	–	30
	<u>–</u>	<u>30</u>
7. OTHER OPERATING EXPENSES		
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Allowance for doubtful trade receivable	–	(1,270)
Amortisation of intangible assets	–	(253)
Amortisation of publishing library	–	(725)
	<u>–</u>	<u>(2,248)</u>

8. PROFIT FROM OPERATIONS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Profit from operations has been arrived at after charging:		
Auditors' remuneration	1,042	1,076
Depreciation and amortisation of property, plant and equipment	9,372	11,612
Loss on disposal of property, plant and equipment	57	343
Operating lease rentals in respects of rented premises	7,166	17,352
Royalty expenses	2,949	3,092
Research and development costs	127	–
Staff costs, including directors' emoluments	28,443	91,724
and after crediting:		
Net foreign exchange gain	<u>761</u>	<u>656</u>

9. DISCONTINUING OPERATIONS

For the year ended 31st March, 2004

On 26th September, 2003, the Group entered into a sale agreement to dispose of the entire equity interests in Hamlet Profits Limited and its subsidiaries ("Hamlet Profits Group"). On 6th February, 2004, the Group entered into another sale agreement to dispose of the entire interests in Future Blossom Limited and its subsidiaries ("Future Blossom Group"). Both Hamlet Profits Group and Future Blossom Group were engaged in apparel trading operations. The disposals were completed on the same date of which the respective sale agreements were entered, on which dates control of respective operation passed to the purchasers.

The results of the apparel trading operations for the period from 1st April, 2003 to 6th February, 2004 which have been included in the consolidated financial statements for the year ended 31st March, 2004, were as follows:

	1.4.2003 to 6.2.2004 <i>HK\$'000</i>	Year ended 31.3.2003 <i>HK\$'000</i>
Turnover	42,824	200,152
Other operating income	398	8,860
Operating costs	<u>(45,982)</u>	<u>(208,801)</u>
(Loss) profit from operations	(2,760)	211
Impairment loss of assets recognised	–	(140)
Goodwill written off	–	(67)
Finance costs	<u>(970)</u>	<u>(1,686)</u>
Net loss for the period/year	<u>(3,730)</u>	<u>(1,682)</u>

During the year, Hamlet Profits Group and Future Blossom Group used HK\$8,703,000 in operations, used HK\$25,946,000 in investing activities and used HK\$2,022,000 from financing activities.

The carrying amount of the assets and liabilities of Hamlet Profits Group and Future Blossom Group at the dates of their disposals and at 31st March, 2003, were as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Total assets	<u>94,904</u>	<u>75,270</u>
Total liabilities, including amount due to the Group of approximately HK\$332,004,000 (2003: HK\$332,004,000)	<u>(431,551)</u>	<u>(413,527)</u>

A profit of HK\$10,083,000 arose on the disposals of Hamlet Profits Group and Future Blossom Group. No tax charge or credit arose from these transactions.

For the year ended 31st March, 2003

On 22nd July, 2002 and 28th January, 2003, the Group discontinued its printing and publishing operations and marine product trading at the time of disposal of its subsidiaries, Island Gold Development Limited (“Island Gold”), Grand Allied Profits Limited (“GAPL”) and their subsidiaries respectively.

- (i) The results of the printing and publishing operations for the period from 1st April, 2002 to 22nd July, 2002 which had been included in the consolidated financial statements for the year ended 31st March, 2003, were as follows:

	<i>HK\$'000</i>
Turnover	143,425
Other operating income	2,750
Operating costs	<u>(160,504)</u>
Loss from operations	(14,329)
Allowance for doubtful recovery of amounts due from associates	(217)
Finance costs	(149)
Share of results of associates	(100)
Minority interests	<u>31</u>
Net loss for the period	<u><u>(14,764)</u></u>

During the year ended 31st March, 2003, Island Gold Group used HK\$33,789,000 in operations, used HK\$1,657,000 in investing activities and generated HK\$38,018,000 from financing activities.

The carrying amount of the assets and liabilities of Island Gold Group at 22nd July, 2002, date of disposal, was as follows:

	<i>HK\$'000</i>
Total assets	<u><u>201,032</u></u>
Total liabilities, including amount due to the Group of approximately HK\$709,021,000	<u><u>(831,870)</u></u>

No gain or loss arose on the disposal of Island Gold. No tax charge or credit arose from this transaction.

- (ii) The results of the marine product trading for the period from 1st April, 2002 to 28th January, 2003 which have been included in the consolidated financial statements for the year ended 31st March, 2003, were as follows:

	<i>HK\$'000</i>
Turnover	48,980
Other operating income	3,183
Operating costs	<u>(52,578)</u>
Loss from operations	(415)
Finance costs	(23)
Taxation	<u>110</u>
Net loss for the period	<u><u>(328)</u></u>

During the year ended 31st March, 2003, GAPL Group generated HK\$959,000 from operations, used HK\$1,171,000 in investing activities and used HK\$189,000 in financing activities.

The carrying amount of the assets and liabilities of GAPL Group at 28th January, 2003, date of disposal, was as follows:

	<i>HK\$'000</i>
Total assets	<u>3,257</u>
Total liabilities, including amount due to the Group of approximately HK\$178,274,000	<u>(181,096)</u>

A profit of HK\$1,263,000 arose on the disposal of GAPL, being the release of translation reserve upon disposal of the subsidiaries. No tax charge or credit arose from this transaction.

10. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' EMOLUMENTS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Directors' emoluments		
Directors' fees		
– Executive	2,640	2,303
– Independent non-executive	<u>200</u>	<u>411</u>
	2,840	2,714
Other emoluments	<u>–</u>	<u>–</u>
Total emoluments	<u>2,840</u>	<u>2,714</u>

Emoluments of the directors were within the following bands:

	Number of directors	
	2004	2003
Nil – HK\$1,000,000	3	8
HK\$1,000,001 – HK\$1,500,000	<u>2</u>	<u>1</u>
	<u>5</u>	<u>9</u>

Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two (2003: two) were directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining three (2003: three) highest paid individuals were as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Salaries and other benefits	2,178	3,257
Retirement benefits scheme contributions	<u>12</u>	<u>33</u>
	<u>2,190</u>	<u>3,290</u>

Their emoluments are within the following bands:

	Number of employees	
	2004	2003
Nil – HK\$1,000,000	3	2
HK\$1,500,001 – HK\$2,000,000	<u>–</u>	<u>1</u>
	<u>3</u>	<u>3</u>

During the year, no emoluments were paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived or agreed to waive any emoluments during the year.

11. FINANCE COSTS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interest on:		
Bank borrowings wholly repayable within five years	(3,431)	(1,814)
Other borrowings wholly repayable within five years	(240)	(1,106)
Finance leases	(201)	(56)
	<u>(3,872)</u>	<u>(2,976)</u>

12. TAXATION

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
The charge comprises:		
The Company and subsidiaries:		
Hong Kong:		
– Current year	(7,362)	(1,231)
– (Under) overprovision in prior years	(110)	160
	<u>(7,472)</u>	<u>(1,071)</u>
Deferred taxation for current year (note 31)	(181)	–
	<u>(7,653)</u>	<u>(1,071)</u>

Hong Kong Profits Tax is calculated at 17.5% (2003: 16%) of the estimated assessable profit for the year. Taxation arising in other countries or regions in the PRC is calculated at the rates prevailing in the relevant jurisdiction.

The taxation charge for the year can be reconciled to the profit (loss) before taxation per the consolidated income statement as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Profit (loss) before taxation	<u>78,731</u>	<u>(1,525)</u>
Tax at the domestic income tax rate of 17.5% (2003: 16%)	(13,778)	244
Tax effect of income not taxable for tax purpose	1,765	220
Tax effect of expenses not deductible for tax purpose	(575)	(669)
Tax effect of tax losses not recognised	(2,055)	(2,468)
Utilisation of tax losses previously not recognised	100	–
Effect of tax exemptions granted to PRC subsidiaries	7,000	1,442
(Under) overprovision in prior years	(110)	160
Taxation attributable to the Company and its subsidiaries for the year	<u>(7,653)</u>	<u>(1,071)</u>

13. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share is based on the following data:

	2004 HK\$'000	2003 HK\$'000
Earnings		
Profit (loss) for the purpose of basic and diluted profit (loss) per share (net profit/loss for the year)	<u>71,078</u>	<u>(2,565)</u>
	2004	2003
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	337,061,107	128,566,520
Effect of dilutive potential ordinary shares – Share options	<u>700,701</u>	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	<u>337,761,808</u>	

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

The weighted average number of ordinary shares in issued for the year 2003 was restated as if the share consolidation and the right issue as described in note 28 have taken place on 1st April, 2002.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Plant and machinery HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP						
AT COST						
At 1st April, 2003	–	58,734	8,945	4,434	601	72,714
Currency realignment	–	(41)	–	–	–	(41)
Acquisition of subsidiaries (Note)	78,000	–	–	–	–	78,000
Additions	–	97,271	4,633	3,110	4,125	109,139
Disposal of subsidiaries	–	(1)	(9,159)	(3,375)	(24)	(12,559)
Disposals	–	(336)	–	–	–	(336)
At 31st March, 2004	<u>78,000</u>	<u>155,627</u>	<u>4,419</u>	<u>4,169</u>	<u>4,702</u>	<u>246,917</u>
DEPRECIATION AND AMORTISATION						
At 1st April, 2003	–	1,209	8,184	3,198	119	12,710
Currency realignment	–	(6)	–	–	–	(6)
Provided for the year	–	6,819	1,344	737	472	9,372
Eliminated on disposal of subsidiaries	–	(1)	(8,284)	(3,110)	(24)	(11,419)
Eliminated on disposals	–	(12)	–	–	–	(12)
At 31st March, 2004	<u>–</u>	<u>8,009</u>	<u>1,244</u>	<u>825</u>	<u>567</u>	<u>10,645</u>
NET BOOK VALUES						
At 31st March, 2004	<u>78,000</u>	<u>147,618</u>	<u>3,175</u>	<u>3,344</u>	<u>4,135</u>	<u>236,272</u>
At 31st March, 2003	<u>–</u>	<u>57,525</u>	<u>761</u>	<u>1,236</u>	<u>482</u>	<u>60,004</u>

Note: On 31st July, 2003, the Group entered into a purchase agreement to acquire the entire equity interests in Best Concord Group Limited, which beneficially owns the land and plant construction situated at Shenzhen, the PRC, from Matsunichi Communications (Hong Kong) Limited, a company which is wholly and beneficially owned by Mr. Pan Su Tong, a director and a substantial shareholder of the Company, at a consideration of HK\$78,000,000, which is included in the land and building under property, plant and equipment. The remaining balance payable outstanding as at 31st March, 2004 of HK\$11,700,000 was included in the amount due to a related company in the current liabilities (see note 24) which shall be payable upon completion of due registration of the title of the plant in the name of Best Concord Group Limited, with all necessary licences for commencing operation of the plant by Best Concord Group Limited having been obtained. According to the legal advices obtained by the Company, such registration of the title was completed in December 2003.

The land and buildings are held under medium term lease and are located in the PRC.

The net book value of the Group's property, plant and equipment includes an amount of approximately HK\$36,511,000 (2003: HK\$348,000) in respect of assets held under finance leases.

15. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	78,000	–
Unlisted capital contributions, at cost	158,061	55,001
	<u>236,061</u>	<u>55,001</u>
Amounts due from subsidiaries (<i>Note</i>)	214,010	–
	<u>450,071</u>	<u>55,001</u>

Particulars of the Company's principal subsidiaries at 31st March, 2004 are set out in note 43.

Note: The amounts are unsecured, non-interest bearing and have no fixed terms of repayment. In the opinion of directors, the amounts are unlikely to be repaid within the next twelve months from the balance sheet date and therefore are shown in the balance sheet as non-current.

16. INTERESTS IN UNCONSOLIDATED SUBSIDIARIES AND AMOUNTS DUE TO UNCONSOLIDATED SUBSIDIARIES

	THE GROUP	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interests stated at carrying value	–	12,201
Less: Impairment losses recognised	–	(4,676)
	<u>–</u>	<u>7,525</u>
Amounts due to unconsolidated subsidiaries	<u>–</u>	<u>7,525</u>

The interests in unconsolidated subsidiaries in prior year represented interests in Beijing Capital Asia International Bonded Affairs Development Co., Ltd. ("Bonded Affairs") 北京中太國際保稅發展有限公司 and Shanghai Fu Da Jewellery Company Limited ("Fu Da") 上海福達珠寶首飾有限公司, which are registered and operated in the PRC, in which the Group held equity interests of 70% and 57% respectively. Throughout the prior year, the Group had been unable to exercise its rights as a major shareholder of Bonded Affairs and Fu Da. Accordingly, the Group had been unable either to control the assets and operations or to exercise significant influence over the financial and operating policy decisions of both Bonded Affairs and Fu Da. For this reason, the financial statements of Bonded Affairs and Fu Da had not been consolidated in prior year's financial statements of the Group. The interests in unconsolidated subsidiaries and amounts due to unconsolidated subsidiaries were disposed of upon disposal of subsidiaries during the year.

17. INTERESTS IN ASSOCIATES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	-	-
Amounts due from associates	-	21,620
Less: Impairment losses recognised	-	(21,620)
	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>

The interests in associates was disposed of upon disposal of subsidiaries during the year.

18. INVESTMENTS IN SECURITIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Other securities, non-trading:		
Unlisted equity securities	-	16,869
Investment fund	-	6,077
	<u>-</u>	<u>22,946</u>
Less: Impairment loss recognised	-	(22,946)
	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>

The investments in securities were disposed of upon disposal of subsidiaries during the year. In the opinion of directors, the fair value of interest in securities in 2003 was negligible.

19. OTHER ASSETS

	THE GROUP AND THE COMPANY	
	2004 HK\$'000	2003 HK\$'000
Club debentures	610	610
Less: Impairment losses recognised	(520)	(520)
	<u>90</u>	<u>90</u>
	<u>90</u>	<u>90</u>

20. INVENTORIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Digital consumer products		
Raw materials	44,978	6,644
Work in progress	4,415	3,701
Finished goods	37,749	14,074
	<u>87,142</u>	<u>24,419</u>
Apparel	-	39,422
	<u>87,142</u>	<u>63,841</u>
	<u>87,142</u>	<u>63,841</u>

At 31st March, 2004, finished goods of approximately HK\$5,122,000 (2003: HK\$20,782,000) included above were carried at net realisable value.

21. TRADE AND OTHER RECEIVABLES

The Group allows credit periods ranging from 30 days to 180 days to its trade customers.

An aged analysis of trade receivables at the balance sheet date is set out as follows:

	THE GROUP	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
0 – 30 days	35,246	18,801
31 – 90 days	124,216	40,457
91 – 180 days	29,282	4,564
Over 180 days	275	5,403
	<u>189,019</u>	<u>69,225</u>
Other receivables	38,175	11,634
	<u>227,194</u>	<u>80,859</u>

22. TRADE AND OTHER PAYABLES

An aged analysis of trade payables at the balance sheet date is set out as follows:

	THE GROUP	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
0 – 90 days	17,150	4,469
91 – 180 days	3,895	167
Over 180 days	1,550	3,686
	<u>22,595</u>	<u>8,322</u>
Other payables	45,114	12,715
	<u>67,709</u>	<u>21,037</u>

23. AMOUNT DUE TO ULTIMATE HOLDING COMPANY**THE GROUP**

The amount is unsecured, interest free and repayable on demand.

24. AMOUNT DUE TO A RELATED COMPANY**THE GROUP AND THE 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 director (note 14).

The amount is unsecured and interest free.

25. BANK BORROWINGS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Bank loans	–	42,453
Trust receipt loans	80,744	21,787
	<u>80,744</u>	<u>64,240</u>
Analysed as:		
Secured	–	53
Unsecured	80,744	64,187
	<u>80,744</u>	<u>64,240</u>

The bank borrowings bear interest at prevailing market rates and are repayable within one year.

26. OTHER BORROWING

THE GROUP

The amount was unsecured and bore interest at Hong Kong prime interest rate.

27. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
THE GROUP				
Amounts payable under finance leases:				
Within one year	13,384	97	12,030	79
In the second to fifth year inclusive	26,304	289	24,395	267
	<u>39,688</u>	386	36,425	346
Less: Future finance charges	(3,263)	(40)	N/A	N/A
Present value of lease obligations	<u>36,425</u>	<u>346</u>	36,425	346
Less: Amount due for settlement within one year			(12,030)	(79)
Amount due for settlement after one year			<u>24,395</u>	<u>267</u>

The lease terms are three years. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

28. SHARE CAPITAL

	Notes	Number of shares		Share capital	
		2004	2003	2004 HK\$'000	2003 HK\$'000
Authorised:					
At 1st April		50,000,000,000	50,000,000,000	500,000	500,000
Consolidation of shares	(a)	(40,000,000,000)	–	–	–
At 31st March		10,000,000,000	50,000,000,000	500,000	500,000
Issued and fully paid:					
At 1st April		707,057,804	589,257,804	7,071	5,893
Issue of new shares by way of placement	(b)	141,400,000	–	1,414	–
Issue of new shares on exercise of share options	(c)	20,001	–	–	–
Issue of new shares	(e)	–	117,800,000	–	1,178
		848,477,805	–	8,485	–
Consolidation of shares	(a)	(678,782,244)	–	–	–
		169,695,561	–	8,485	–
Rights issue of shares	(d)	339,391,122	–	16,969	–
At 31st March		509,086,683	707,057,804	25,454	7,071

(a) Pursuant to ordinary resolutions passed at the special general meeting of the Company held on 8th September, 2003, the share consolidation was effected that every five issued and unissued then existing shares were consolidated into one consolidated share. The nominal value of issued shares in the share capital of the Company was increased from HK\$0.01 to HK\$0.05 each.

(b) On 9th April, 2003, Jade Forest Limited (“Jade Forest”), a substantial shareholder of the Company, agreed to place 141,400,000 shares of HK\$0.01 each in the Company to independent investors at a price of HK\$0.18 per share. The placing price represented a discount of 10% to the closing price of HK\$0.20 per share as quoted on the Stock Exchange on 9th April, 2003.

On the same date, Jade Forest agreed to subscribe for 141,400,000 new shares of HK\$0.01 each in the Company at a price of HK\$0.18 per share. The shares to be subscribed amounted to 20% of the then existing share capital and 16.67% of the enlarged issued share capital of the Company. The shares were allotted and issued on 22nd April, 2003. All shares issued rank pari passu with the then existing shares in issue in all respects.

The net proceeds of the subscription of approximately HK\$25 million were used for the expansion of the Group’s communication-related business and for general working capital purposes of the Group.

(c) Pursuant to an ordinary resolution passed at the directors meeting of the Company held on 25th August, 2003, the Company granted 20,001 share options to an employee and the employee exercised the share options on the same date at a price of HK\$0.2518 per share. All shares issued rank pari passu with the then existing shares in issue in all respects.

(d) Rights issue of 339,391,122 shares of HK\$0.05 each at a subscription price of HK\$1 per rights share were allotted on 30th September, 2003 to the shareholders of the Company in the proportion of two rights shares for every consolidated share then held. All shares issued rank pari passu with the then existing shares in issue in all respects.

The net proceeds of the rights issue of approximately HK\$334 million were applied for expanding the Group’s communication-related business and for general working capital purposes. All shares issued rank pari passu with the then existing shares in issue in all respects.

(e) Pursuant to a subscription agreement dated 3rd October, 2002, on 17th October, 2002, 117,800,000 new shares in the Company were allotted and issued to Jade Forest, a substantial shareholder of the Company at the time of allotment, at a price of HK\$0.2 per share. All shares issued rank pari passu with the then existing shares in issue in all respects.

The proceeds were used to expand the Group’s activities in communication-related business and used as general working capital of the Group.

29. SHARE OPTIONS

The Company operates a share option scheme for the purpose of providing incentives or rewards to participants.

Under the share option scheme, the board of directors of the Company may grant options as an incentive to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company at the price determined by the directors, but shall not be lower than the higher of (i) the closing price of the Company's shares on the Stock Exchange of on the date of grant; (ii) the average of the closing prices of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares. The maximum number of shares in respect of which options may be granted under the share option scheme is not permitted to exceed 10% of the issued share capital of the Company from time to time. An option may be exercised at any time within ten years from the date of grant of the relevant options.

The offer of a grant of share options under the scheme may be accepted within 28 days from the date of the offer by the grantee. The vesting and exercise period of the share option granted is determinable at the entire discretion of the board of directors but the exercise period will not exceed a period of ten years immediate after acceptance of grant.

At 31st March, 2004, the number of shares in respect of which options had been granted and remained outstanding under the share option scheme were 20,000,000 shares, representing 3.9% of the shares of the Company in issue at that date.

No charge is recognised in the income statement in respect of the value of options granted during the year.

The following tables disclose details of the Company's share options of the Group and movements in such holding during the year:

(i) Employees

Date of grant	Subscription price per share HK\$	Exercise period	Outstanding at 01.04.2003	Number of share options		Outstanding at 31.03.2004
				Granted during the year	Exercised during the year (Note b)	
25.08.2003	0.2518	25.08.2003 to 24.08.2013	-	20,001	(20,001)	-
05.02.2004	1.3000	05.02.2004 to 04.02.2014	-	7,700,000	-	7,700,000
			-	7,720,001	(20,001)	7,700,000
			-	7,720,001	(20,001)	7,700,000

(ii) Other participants

Date of grant	Subscription price per share HK\$	Exercise period	Outstanding at 01.04.2003	Number of share options		Outstanding at 31.03.2004
				Granted during the year	Exercised during the year	
05.02.2004	1.3000	05.02.2004 to 04.02.2014	-	12,300,000	-	12,300,000
			-	12,300,000	-	12,300,000
			-	12,300,000	-	12,300,000

Notes:

- (a) The closing prices of the Company's shares immediately preceding the date of grant of 25th August, 2003 and 5th February, 2004 were HK\$0.248 and HK\$1.300, respectively.
- (b) The options were exercised on 25th August, 2003 with closing price of HK\$0.250 of the Company's shares at the date of exercise.

No options were granted to or held by directors of the Company during the year.

No options were granted or outstanding in prior year.

On 20th April, 2004, the Company further granted 30,000,000 new share options under the share option scheme to its participants at a subscription price of HK\$1.540 per share. The closing price of the share at the date of grant was HK\$1.480. Up to date of this report, these new share options had not been exercised.

30. RESERVES

THE GROUP

Details of changes in reserves of the Group are set out in the consolidated statement of changes in equity in page 40.

Capital reserve represents the loans waived by former minority shareholders of a wholly-owned subsidiary in the PRC. Pursuant to local regulations, this amount has been transferred to a non-distributable reserve of the subsidiary.

	Share premium HK\$'000	Special reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY				
Balance at 1st April, 2002	329,237	44,932	(253,427)	120,742
Issue of new shares	22,382	–	–	22,382
Expenses incurred in connection with issue of shares	(606)	–	–	(606)
Net loss for the year	–	–	(13,784)	(13,784)
Transfer as required under the Order on Petition (note (a))	–	223	(223)	–
	<u>351,013</u>	<u>45,155</u>	<u>(267,434)</u>	<u>128,734</u>
Balance at 31st March, 2003	351,013	45,155	(267,434)	128,734
Issue of new shares (note 28)	346,464	–	–	346,464
Expenses incurred in connection with issue of shares	(6,326)	–	–	(6,326)
Net profit for the year	–	–	674	674
Transfer as required under the Order on Petition (note (a))	–	100	(100)	–
	<u>691,151</u>	<u>45,255</u>	<u>(266,860)</u>	<u>469,546</u>
Balance at 31st March, 2004	<u>691,151</u>	<u>45,255</u>	<u>(266,860)</u>	<u>469,546</u>

Notes:

- (a) As part of a share capital reorganisation (the “Reorganisation”) (details of which are set out in a circular dated 10th August, 1998), an order dated 2nd March, 1999 confirming the reduction of the capital of the Company (the “Order”) was made by the High Court of the Hong Kong Special Administrative Region (the “Court”) in connection with the reduction of the capital and of the share premium account of the Company pursuant to which the Company undertook to the Court that any sum received by the Company in respect of the investments or loans or transactions, as more fully described in the Order, whether by reasons of realisation or repayment or recovery of the whole or any part of such investments or loans or transactions or the payment of dividends or interest or otherwise howsoever, up to a maximum amount of HK\$497,509,863.52, would be credited to a special reserve in the accounting records of the Company and that for so long as there remained any debt of or claim against the Company outstanding at the date when the reduction of capital and of the share premium account became effective which, if such date were the date of the commencement of the winding up of the Company, would have been admissible in proof against the Company and the persons entitled to the benefit thereof had not have agreed otherwise, such reserve:

- (i) should not be treated as realised profits; and

- (ii) should, for so long as the Company remained a listed company, be treated as an undistributable reserve of the Company for the purposes of Section 79C of the Companies Ordinance or any statutory re-enactment or modification thereof.

It was also provided in the Order that, notwithstanding the above undertaking, the amount standing to the credit of the special reserve might be reduced by the aggregate of any increase in the issued share capital or in the share premium account of the Company resulting from an issue of shares for cash or other new consideration or upon a capitalisation of distributable reserves after the reduction of capital and of the share premium account became effective.

Since the Reorganisation, the Company increased its issued share capital and share premium account by ways of rights issue, share placement for cash consideration and exercise of share options. Details of such increases are as follows:

	Up to 31st March, 2004 HK\$	Up to 31st March, 2003 HK\$
Increase in issued share capital	25,104,185.87	6,720,429.87
Increase in share premium account, net of expenses incurred	568,899,209.42	228,761,360.42
	<u>594,003,395.29</u>	<u>235,481,790.29</u>

Accordingly, based on legal opinion, the maximum amount of HK\$497,509,863.52 to be credited to the special reserve of the Company as required by the undertaking in the Order is achieved through the cumulative increase of share capital and premium of HK\$594,003,395.29 and the special reserve of HK\$45,255,059.82 up to 31st March, 2004.

As at 31st March, 2003, the Company credited HK\$45,155,059.82 to the special reserve, thus keeping the maximum amount to be credited to the special reserve to HK\$216,873,013.41.

- (b) In the opinion of the directors, the Company did not have any reserves available for distribution to shareholders at the balance sheet date.

31. DEFERRED TAXATION

The following is the major deferred taxation liability recognised and movements thereon during the current and prior years:

	Accelerated tax depreciation HK\$'000
At 1st April, 2002 and 1st April, 2003	–
Charge to income statement for the year	181
At 31st March, 2004	<u>181</u>

At the balance sheet date, the Group has unused tax losses of approximately HK\$61,194,000 (2003: HK\$63,846,000) available for offset future profits. No deferred taxation asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. There were no other significant temporary differences arising during the year or at the balance sheet date.

The Company has no significant temporary differences arising during the year or at the balance sheet date.

32. ACQUISITION OF SUBSIDIARIES

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Net assets (liabilities) acquired comprise:		
Property, plant and equipment	78,000	59,125
Inventories	–	3,511
Trade and other receivables	–	4,151
Bank balances and cash	–	23,406
Trade and other payables	–	(7,955)
Other loans	–	(27,001)
	<u>78,000</u>	<u>55,237</u>
Negative goodwill arising on acquisition	–	(237)
	<u><u>78,000</u></u>	<u><u>55,000</u></u>
Satisfied by:		
Cash	66,300	55,000
Amount due to a related company	11,700	–
	<u>78,000</u>	<u>55,000</u>
	<u><u>78,000</u></u>	<u><u>55,000</u></u>
Net cash outflow arising on acquisition:		
Cash consideration paid	(66,300)	(55,000)
Bank balances and cash acquired	–	23,406
	<u>(66,300)</u>	<u>23,406</u>
Net outflow of cash and cash equivalents	<u><u>(66,300)</u></u>	<u><u>(31,594)</u></u>

The subsidiaries acquired during the year contributed insignificant turnover, profit from operations and cash flow to the Group (note 14).

The subsidiary acquired during the year ended 31st March, 2003 generated HK\$8,129,000 from operations, used HK\$60,259,000 in investing activities and generated HK\$56,605,000 from in financing activities during 2003.

The subsidiary acquired during the year ended 31st March, 2003 contributed approximately HK\$18,965,000 to turnover, and a profit of approximately HK\$4,827,000 to the Group's profit from operations.

33. DISPOSAL OF SUBSIDIARIES

As explained in note 9, on 26th September, 2003 and 6th February, 2004, the Group discontinued its apparel trading operations at the time of disposal of its subsidiaries, Hamlet Profits Group and Future Blossom Group, respectively. On 22nd July, 2002 and 28th January, 2003, the Group discontinued its printing and publishing operations and marine product trading at time of disposal of its subsidiaries, Island Gold and Grand Allied, respectively. The net liabilities of these subsidiaries disposed of during the year were as follows:

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net liabilities disposed of comprise:		
Property, plant and equipment	1,140	85,750
Publishing library	–	19,945
Interest in unconsolidated subsidiaries	–	–
Interest in associates	–	–
Investments in securities	–	–
Other assets	–	535
Intangible assets	–	6,947
Inventories	44,549	1,918
Trade and other receivables	21,246	75,795
Amounts due from related companies	–	12
Amounts due from associates	–	190
Pledged bank deposits	25,220	–
Bank balances and cash	2,749	14,049
Trade and other payables	(35,347)	(73,769)
Tax payable	–	(3,191)
Amount due to immediate holding company	(332,004)	(891,855)
Amounts due to related companies	–	(12)
Amounts due to minority shareholders of subsidiaries	–	(2,225)
Minority interests	–	2,225
Obligations under finance leases	–	(385)
Bank borrowings	(64,200)	(46,968)
Bank overdraft	–	(1,345)
	<u>(336,647)</u>	<u>(812,384)</u>
Translation reserve realised	–	(1,263)
Gain on disposal	<u>10,083</u>	<u>1,202</u>
	<u><u>(326,564)</u></u>	<u><u>(812,445)</u></u>
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Satisfied by:		
Cash	5,440	79,410
Debt assignment	(332,004)	(891,855)
	<u>(326,564)</u>	<u>(812,445)</u>
Net cash inflow arising on disposal:		
Cash consideration received	5,440	79,410
Bank balances and cash disposed of	(2,749)	(14,049)
Bank overdraft disposed of	–	1,345
	<u>2,691</u>	<u>66,706</u>

The subsidiaries disposed of during the year contributed approximately HK\$42,824,000 (2003: HK\$192,405,000) to the Group's turnover, and a profit of approximately HK\$6,353,000 (2003: a loss of HK\$14,744,000) to the Group's profit (loss) for the year.

34. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases amounted to HK\$37,183,000 (2003: HK\$600,000).

35. OPERATING LEASE ARRANGEMENTS

The Group as lessee

At the balance sheet date, the Group had entered into certain non-cancellable operating leases in respect of rented premises. The future minimum lease payments committed by the Group in respect of the leases fall due as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within one year	3,022	6,578
In the second to fifth year inclusive	1,431	5,056
	<u>4,453</u>	<u>11,634</u>

Leases are negotiated for a term ranged from 2 to 3 years.

The Company had no significant operating lease commitments at the balance sheet date.

36. CAPITAL COMMITMENTS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
– acquisition of properties under development in Malaysia (<i>Note</i>)	–	105,281
– acquisition of property, plant and equipment	1,176	1,334
	<u>1,176</u>	<u>106,615</u>

Note: After disposal of the Hamlet Profits Group, there was no capital commitment for the acquisition of properties under development in Malaysia at 31st March, 2004.

The Company had no significant capital commitments at the balance sheet date.

37. OTHER COMMITMENTS

At 31st March, 2003, the Group had entered into certain licensing arrangements. The future minimum licensing payments committed by the Group in respect of the arrangement are as follows:

	THE GROUP	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Within one year	–	3,560
In the second to fifth year inclusive	–	5,992
	<u>–</u>	<u>9,552</u>
	<u>–</u>	<u>9,552</u>

At 31st March, 2003, the Group had entered into an agreement in relation to the research and development of a new product. The contract sum committed by the Group, net of the deposit paid, was approximately HK\$10,687,000 and would fall due within one year. During the year ended 31st March, 2004, the Group terminated part of the agreement due to unsatisfactory services rendered by the vendor. Accordingly, no commitment in respect of that research and development was outstanding at 31st March, 2004.

The Company had no significant other commitments at the balance sheet date.

38. CONTINGENT LIABILITIES**THE GROUP**

The Group had no significant contingent liabilities at the balance sheet date.

THE COMPANY

The Company has provided a guarantee to banks in respect of credit facilities of finance leases granted to a subsidiary amounting to approximately HK\$664,000 (2003: HK\$420,000). The amount of the credit facilities utilized as at 31st March, 2004 amounting to approximately HK\$469,000 (2003: HK\$346,000).

In addition, at 31st March, 2004, the Company provided an unlimited guarantee to a bank in respect of credit facilities granted to a subsidiary. The amount utilized by that subsidiary at 31st March, 2004 was approximately HK\$80,744,000 (2003: HK\$3,859,000).

39. PLEDGE OF ASSETS

At the balance sheet date, certain borrowings of the Group were secured by the bank deposits of approximately HK\$600,000 (2003: HK\$600,000). In 2003, certain borrowings of the Group were also secured by property, plant and equipment with carrying value of HK\$135,000.

40. RETIREMENT BENEFIT SCHEMES**Retirement benefits scheme contributions**

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Retirement benefits scheme contributions to the Group's defined contribution scheme	795	4,068
Less: Forfeited contributions	–	(23)
	<u>795</u>	<u>4,045</u>
Contributions to mandatory provident fund scheme ("MPF Scheme")	193	2,347
Contributions to PRC state-managed retirement benefit scheme	212	42
	<u>405</u>	<u>2,389</u>
Amount charged to income statement	<u>1,200</u>	<u>6,434</u>

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the “ORSO Scheme”) and the MPF Scheme established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of independent trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1st December, 2000 are required to join the MPF Scheme.

The retirement benefit cost charged to the income statement represents contributions payable to the funds by the Group at rates specified in the rules of the schemes. Where there are employees who leave the ORSO Scheme prior to vesting fully in the contributions, the amount of forfeited contributions under the ORSO Scheme is used to reduce the contributions payable by the Group under the ORSO Scheme.

At the balance sheet date, there were no forfeited contributions which arose upon employees leaving the ORSO Scheme and which are available to reduce the contributions payable in the future years.

41. POST BALANCE SHEET EVENT

Subsequent to 31st March, 2004, the Group entered into a sale and purchase agreement and a letter of intention with outsiders to dispose machinery with carrying value of HK\$38,378,000.

42. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions with related parties:

- (a) On 31st July, 2003, the Group entered into a purchase agreement with Matsunichi Communications (Hong Kong) Limited, a company which is wholly and beneficially owned by Mr. Pan Su Tong, a director of the Company, to acquire the entire equity interests in Best Concord Limited and its subsidiary (“the Best Concord Group”), which beneficially owns the land and building situated in Shenzhen, the PRC, with carrying value of HK\$78,000,000 at a consideration of HK\$78,000,000.
- (b) On 9th December, 2002, the Group entered into two deeds with Matsunichi International Holdings Limited, and with 廣東松日電器有限公司 (Guangdong Matsunichi Electronics Limited) and 廣東松日通訊科技股份有限公司 (Guangdong Matsunichi Communications Technology Company Limited) (collectively the “Licensors”), respectively. Mr. Pan Su Tong, a director of the Company, has controlling interests in these companies. Pursuant to the deeds, the Licensors granted to the Group non-exclusive licences to use the trade marks of “Matsunichi” on and in relation to MP3 players and digital audio products at a licence fee of HK\$1 per annum each, for a term of 3 years from 1st November, 2003. During the year ended 31st March, 2004, the licence fee paid by the Group amounted to HK\$2.

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company’s principal subsidiaries as at 31st March, 2004 are as follows:

Name of subsidiary	Place of incorporation/ registration/ operation	Nominal value of issued ordinary share capital/ registered and fully paid capital	Proportion of equity interests held by the Company		Principal activities
			Directly	Indirectly	
Best Concord Limited	British Virgins Islands/ Hong Kong	US\$1	100%	–	Investment holding
Gainet Asia Limited	Hong Kong	HK\$2	100%	–	Money lending
Matsunichi Digital Technology (Shenzhen) Co., Ltd.	PRC*	HK\$59,600,000	100%	–	Manufacturing and trading of digital consumer products
Matsunichi Hi-Tech Limited	Hong Kong	HK\$100	100%	–	Trading of digital consumer products

Name of subsidiary	Place of incorporation/ registration/ operation	Nominal value of issued ordinary share capital/ registered and fully paid capital	Proportion of equity interests held by the Company		Principal activities
			Directly	Indirectly	
Matsunichi Information Technology (Shenzhen) Co., Ltd.	PRC*	HK\$50,000,000	–	100%	Manufacturing and trading of digital consumer products
Matsunichi Technology (Dalian) Co., Ltd.	PRC*	RMB59,945,220	100%	–	Manufacturing and trading of digital consumer products
Matsunichi Media Agency Limited	Hong Kong	HK\$100	100%	–	Provision of agency service
Matsunichi (Shenzhen) R&D Centre Co., Ltd.	PRC*	HK\$9,120,000	100%	–	Manufacturing and trading of digital consumer products

* These companies were established in the PRC in the form of wholly foreign-owned enterprise.

- (a) None of the subsidiaries had any debt securities subsisting at 31st March, 2004 or at any time during the year.
- (b) The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2. THREE YEAR SUMMARY

The following information has been extracted from the audited financial statements of the Group for each of the three years ended 31st March, 2002, 2003 and 2004:

Condensed Consolidated Income Statement

Year ended 31st March

	2004	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	<u>613,059</u>	<u>438,381</u>	<u>589,719</u>
Profit (loss) before taxation	78,731	(1,525)	(120,388)
Taxation	<u>(7,653)</u>	<u>(1,071)</u>	<u>(69)</u>
Profit (loss) before minority interests	71,078	(2,596)	(120,457)
Minority interests	<u>–</u>	<u>31</u>	<u>142</u>
Net profit (loss) for the year	<u>71,078</u>	<u>(2,565)</u>	<u>(120,315)</u>
Earnings (loss) per share			
– Basic (HK cents)	<u>21.09</u>	<u>(2.00)</u>	<u>(20.00)</u>
– Diluted (HK cents)	<u>21.04</u>	<u>N/A</u>	<u>N/A</u>

Consolidated Assets, Liabilities and Minority Interests

As at 31st March

	2004	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets	236,362	67,619	131,085
Current assets	<u>544,874</u>	<u>184,444</u>	<u>162,604</u>
Total assets	<u>781,236</u>	<u>252,063</u>	<u>293,689</u>
Current liabilities	180,082	98,437	159,192
Non-current liabilities	<u>24,576</u>	<u>7,792</u>	<u>9,983</u>
Total liabilities	<u>204,658</u>	<u>106,229</u>	<u>169,175</u>
Minority interests	<u>–</u>	<u>–</u>	<u>2,194</u>
	<u>576,578</u>	<u>145,834</u>	<u>126,708</u>

3. INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2004

Condensed Consolidated Income Statement*For the six months ended 30th September, 2004*

	<i>Notes</i>	Six months ended	
		30/09/2004 (unaudited) <i>HK\$'000</i>	30/09/2003 (unaudited) <i>HK\$'000</i>
Turnover	3	817,187	221,779
Cost of sales		<u>(587,758)</u>	<u>(149,960)</u>
Gross profit		229,429	71,819
Other operating income		1,607	763
Selling and distribution costs		(11,991)	(34,571)
Administrative expenses		<u>(63,978)</u>	<u>(20,202)</u>
Profit from operations		155,067	17,809
Finance costs		(4,896)	(1,184)
Gain on disposal of subsidiaries		<u>–</u>	<u>9,215</u>
Profit before taxation	4	150,171	25,840
Taxation	5	<u>(15,688)</u>	<u>–</u>
Net profit for the period		<u><u>134,483</u></u>	<u><u>25,840</u></u>
Earnings per share			
– basic	7	<u><u>HK26.42 cents</u></u>	<u><u>HK15.36 cents</u></u>
– diluted	7	<u><u>HK26.18 cents</u></u>	<u><u>HK15.36 cents</u></u>

Condensed Consolidated Balance Sheet*At 30th September, 2004*

	30/09/2004 (unaudited) <i>HK\$'000</i>	31/03/2004 (audited) <i>HK\$'000</i>
Non-current assets		
Property, plant and equipment	264,427	236,272
Other assets	90	90
	<u>264,517</u>	<u>236,362</u>
Current assets		
Inventories	63,453	87,142
Machinery held for sale	24,122	38,378
Trade and other receivables	648,098	227,194
Pledged bank deposits	600	600
Bank balances and cash	275,761	191,560
	<u>1,012,034</u>	<u>544,874</u>
Current liabilities		
Trade and other payables	166,613	67,709
Bills payable	–	59
Bank overdrafts	5,560	–
Amount due to ultimate holding company	5,555	1,945
Amount due to a related company	11,700	11,700
Taxation payable	21,473	5,895
Bank borrowings – amount due within one year	324,883	80,744
Obligations under finance leases – amount due within one year	13,031	12,030
	<u>548,815</u>	<u>180,082</u>
Net current assets	<u>463,219</u>	<u>364,792</u>
Total assets less current liabilities	<u>727,736</u>	<u>601,154</u>
Non-current liabilities		
Obligations under finance leases – amount due after one year	17,385	24,395
Deferred taxation	290	181
	<u>17,675</u>	<u>24,576</u>
Net assets	<u><u>710,061</u></u>	<u><u>576,578</u></u>
Capital and reserves		
Share capital	25,454	25,454
Reserves	684,607	551,124
	<u><u>710,061</u></u>	<u><u>576,578</u></u>

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

Secondary reporting segment – business segments

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

	Six months ended	
	30/09/2004 (unaudited) HK\$'000	30/09/2003 (unaudited) HK\$'000
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	
	30/09/2004 (unaudited) HK\$'000	30/09/2003 (unaudited) HK\$'000
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>749</u>	<u>81</u>

4. INDEBTEDNESS

As at 30th November, 2004, the Group had outstanding bank borrowings amounting to approximately HK\$307,259,000, comprising unsecured bank overdrafts of approximately HK\$5,872,000, unsecured trust receipt loans of approximately HK\$220,547,000, unsecured bank loans of approximately HK\$56,574,000 and secured bank loans of approximately HK\$24,266,000. In addition, the Group had outstanding, as at 30th November, 2004, obligations under finance leases of approximately HK\$28,786,000 and contingent liabilities in respect of bills discounted with recourse of approximately HK\$1,924,000.

As at 30th November, 2004, the Group had amounts due to ultimate holding company and a related company of approximately HK\$7,723,000 and HK\$11,700,000, respectively. The amounts due to ultimate holding company and the related company were unsecured, interest-free and repayable on demand.

The banking facilities available to the Group, as at 30th November 2004, were secured by pledge of the Group's bank deposits of approximately HK\$17,081,000 and supported by corporate guarantees from the Company and a guarantee from a third party.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have outstanding at the close of business on 30th November, 2004 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, obligations under finance lease contracts, liabilities under acceptances (other than normal trade bills) or acceptable credits, debentures, mortgages, charges, finance lease or hire purchases commitments, guarantees or other material contingent liabilities.

Foreign currency amounts have been translated at the approximate exchange rates prevailing at the close of business on 30th November, 2004.

5. WORKING CAPITAL

The Directors are of the opinion that taking into account the internal financial resources and the present available banking facilities, the Enlarged Group will have sufficient working capital for its normal business for the next 12 months from the date of this circular.

6. MATERIAL CHANGE

Save as disclosed herein, the Directors are not aware, as at the Latest Practicable Date, of any material adverse change in the financial or trading position or prospect of the Group since 31st March, 2004, the date to which the latest published audited financial statements of the Group were made up.

PROFIT AND LOSS STATEMENT OF PRODUCTS BEARING THE TRADEMARKS

		For the six months ended 30th September, 2004	For the year ended 31st March, 2004	For the period from 1st November, 2002 to 31st March, 2003
	Notes	HK\$'000	HK\$'000	HK\$'000
Trademarks revenue	1	628,132	419,617	94,804
Product cost of sales	2	<u>(452,574)</u>	<u>(311,378)</u>	<u>(55,906)</u>
Gross Profit		175,558	108,239	38,898
Other revenue	2	1,237	1,580	923
Other selling expenses	2	(2,644)	(5,822)	(227)
Administrative expenses	2	(49,263)	(31,056)	(12,916)
Advertising expenses	3	<u>(8,557)</u>	<u>(28,545)</u>	<u>(14,045)</u>
Attributable profit from operations		116,331	44,396	12,633
Finance costs	2	<u>(3,770)</u>	<u>(2,147)</u>	<u>(1,139)</u>
Profit before taxation		112,561	42,249	11,494
Taxation	2	<u>(12,080)</u>	<u>(5,530)</u>	<u>(1,231)</u>
Net profit for the period/year		<u><u>100,481</u></u>	<u><u>36,719</u></u>	<u><u>10,263</u></u>

The profit and loss statement of products bearing the Trademarks (the “Statement”) for the period from 1st November, 2002 (the date on which the two License Deeds relating to the Trademarks became effective) to 31st March, 2003, the year ended 31st March, 2004 and the six months ended 30th September, 2004 (the “Reporting Periods”) set out above has been prepared by the Directors based on the Group’s revenue and expenses attributable to the products bearing the Trademarks for each of the Reporting Periods. The accounting policies adopted by the Directors in the preparation of the Statement are consistent with those adopted by the Group in all material aspects.

Notes:

1. The product revenue for each of the Reporting Periods represented the Group's revenue generated from the manufacture and sale of products bearing the Trademarks ("Trademarks Revenue") as extracted from the accounting books and records of the Group.
2. For the purpose of preparing the Statement, the Directors have derived the ratio of Trademarks Revenue over the aggregate revenue generated by the Group from the manufacture and sale of digital consumer products activities from its accounting books and records. The ratio was applied to the amounts incurred by the Group from the manufacture and sale of digital consumer products activities for each of these items to arrive at the estimated amounts incurred by the Group that were attributable to products bearing the Trademarks for each of the Reporting Periods.
3. All advertising costs incurred by the Group for each of the Reporting Periods were solely for the purpose of promoting the products bearing the Trademarks and are extracted from the accounting books and records of the Group.
4. The expenses in the Statement above did not include certain professional fee and renewal fees incurred for the Trademarks which were borne by the private companies controlled by Mr. Pan.
5. The Statement did not include any operating results of certain other consumer electronic products bearing the Trademarks produced and traded in the PRC by private companies controlled by Mr. Pan.

PRO FORMA STATEMENT OF UNAUDITED ADJUSTED ASSETS AND LIABILITIES**(i) Introduction to the pro forma statement of unaudited adjusted assets and liabilities**

The pro forma statement of unaudited adjusted assets and liabilities of the Group has been prepared giving effect to the Acquisitions at consideration which shall be satisfied by cash of HK\$20,000,000 and issue of 95,000,000 new Shares credited as fully paid at a price of HK\$2 each.

In connection with the Acquisitions, the Group will be required to incur incidental costs. The legal and professional costs to be incurred estimated by the Directors will be approximately HK\$1,900,000.

The pro forma statement of unaudited adjusted assets and liabilities of the Group which has been prepared in accordance with Rule 4.29 of the Listing Rules is for the purpose of illustrating the Acquisitions as if the Acquisitions had taken place on 30th September, 2004.

The pro forma statement of unaudited adjusted assets and liabilities of the Group is based upon the unaudited consolidated net assets of the Group as at 30th September, 2004, which has been extracted from the interim report of the Company for the six months ended 30th September, 2004, after giving effect to the pro forma adjustments described in the notes thereto. A narrative description of the pro forma adjustments of the Acquisitions that are (i) directly attributable to the transaction; (ii) expected to have a continuing impact on the Group; and (iii) factually supportable, are summarised in the accompanying notes.

The pro forma statement of unaudited adjusted assets and liabilities of the Group is based on a number of assumptions, estimates, uncertainties. The accompanying pro forma statement of unaudited adjusted assets and liabilities of the Group does not purport to describe the actual financial position of the Group that would have been attained had the Acquisitions been completed on 30th September, 2004. The pro forma statement of unaudited adjusted assets and liabilities of the Group does not purport to predict the future financial position of the Group.

The pro forma statement of unaudited adjusted assets and liabilities of the Group should be read in conjunction with the historical financial information of the Company as set out in the interim report of the Company for the six months ended 30th September, 2004 and other financial information included elsewhere in this circular.

(ii) Pro forma statement of unaudited adjusted assets and liabilities

	The Group as at 30th September, 2004 <i>HK\$'000</i>	Pro forma adjustments <i>HK\$'000</i>	<i>Notes</i>	Pro forma combined total <i>HK\$'000</i>
ASSETS				
Non-current assets				
Property, plant and equipment	264,427	–		264,427
Intangible Assets	–	211,900	1	211,900
Other assets	90	–		90
	<u>264,517</u>	<u>211,900</u>		<u>476,417</u>
Current assets				
Inventories	63,453	–		63,453
Machinery held for sale	24,122	–		24,122
Trade and other receivables	648,098	–		648,098
Pledged bank deposits	600	–		600
Bank balances and cash	275,761	(21,900)	2	253,861
	<u>1,012,034</u>	<u>(21,900)</u>		<u>990,134</u>
Total assets	<u><u>1,276,551</u></u>	<u><u>190,000</u></u>		<u><u>1,466,551</u></u>
LIABILITIES				
Current liabilities				
Trade and other payables	166,613	–		166,613
Bank overdrafts	5,560	–		5,560
Amount due to ultimate holding company	5,555	–		5,555
Amount due to a related company	11,700	–		11,700
Taxation payable	21,473	–		21,473
Bank borrowings				
– amount due within one year	324,883	–		324,883
Obligations under finance leases				
– amount due within one year	13,031	–		13,031
	<u>548,815</u>	<u>–</u>		<u>548,815</u>
Non-current liabilities				
Obligations under finance leases				
– amount due after one year	17,385	–		17,385
Deferred taxation	290	–		290
	<u>17,675</u>	<u>–</u>		<u>17,675</u>
Total liabilities	<u><u>566,490</u></u>	<u><u>–</u></u>		<u><u>566,490</u></u>
Net assets	<u><u>710,061</u></u>	<u><u>190,000</u></u>		<u><u>900,061</u></u>

This statement has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of financial position of the Group following completion of the Acquisitions.

Notes:

1. The Group will acquire the Trademarks at a consideration of HK\$210,000,000 which shall be satisfied by cash of HK\$20,000,000 and the issuance of 95,000,000 new Shares credited as fully paid at a price of HK\$2 each. In connection with the Acquisitions, the Group will be required to incur direct incidental costs regarding legal and professional costs of approximately HK\$1,900,000 (assuming all these costs will be incurred for the Acquisitions). The unaudited pro forma net assets statement adjustments reflect the increase in the carrying amount of intangible assets of HK\$211,900,000 as a result of the acquisition of the Trademarks as if the Acquisitions had taken place on 30th September, 2004.
2. Part of the consideration for the Acquisitions will be HK\$20,000,000 payable in cash, which will be financed by the Group's existing internal financial resources. In connection with the Acquisitions, the Group will be required to pay legal and professional costs of approximately HK\$1,900,000. The legal costs will be financed by the Group's internal financial resources. The pro forma adjustments reflect the decrease in bank balances and cash of HK\$21,900,000.
3. The cost of the Acquisitions and the fair value of the Trademarks to be recognised by the Group in its accounting books and records will have to be assessed in accordance with the Hong Kong Generally Accepted Accounting Principles upon completion of the Acquisitions. As a result of the assessment, the cost of the Acquisitions to be incurred by the Group and the fair value of the Trademarks may be different from the amounts estimated based on the basis stated in section (i) above for the purpose of preparation of the pro forma statement of unaudited adjusted assets and liabilities.

(iii) Report on pro forma statement of unaudited adjusted assets and liabilities

Certified Public Accountants
Member of
Grant Thornton International

Grant Thornton 
均富會計師行

7th January, 2005

The Directors,
Matsunichi Communication Holdings Limited,
22/F., Two International Finance Centre,
8 Finance Street,
Central,
Hong Kong

Dear Sirs,

Matsunichi Communication Holdings Limited (the “Company”) and the subsidiaries (the “Group”)

We report on the pro forma statement of unaudited adjusted assets and liabilities of the Group and the Trademarks proposed to be acquired (the “Pro Forma Statement of Assets and Liabilities”) as set out on pages 79 to 81 in Appendix III of the circular dated 7th January, 2005 (the “Circular”) in connection with the major and connected transactions involving issue of new shares of the Company, which has been prepared by the Directors of the Company, solely for

illustrative purposes only, to provide information about how the acquisition of the Trademarks might have affected the assets and liabilities of the Group as at 30th September, 2004. The basis of preparation of the Pro Forma Statement of Assets and Liabilities is set out on page 79 of the Circular.

Responsibilities

It is the responsibility solely of the Directors of the Company to prepare the Pro Forma Statement of Assets and Liabilities in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

It is our responsibility to form an opinion as required by Rule 4.29 of the Listing Rules on the Pro Forma Statement of Assets and Liabilities and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Statement of Assets and Liabilities with the Directors of the Company.

Our work did not constitute an audit or review made in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such audit or review assurance on the Pro Forma Statement of Assets and Liabilities.

The Pro Forma Statement of Assets and Liabilities is for illustrative purposes only, based on the Directors’ judgements and assumptions, and because of its nature, it may not give any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group had the transaction actually occurred on 30th September, 2004 or of the enlarged group at any future date or for any future periods.

Opinion

In our opinion:

- a. the Pro Forma Statement of Assets and Liabilities has been properly compiled by the Directors of the Company on the basis stated;
- b. such basis is consistent with the accounting policies of the Group; and

- c. the adjustments are appropriate for the purposes of the Pro Forma Statement of Assets and Liabilities as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Yours faithfully,

Grant Thornton
Certified Public Accountants
Hong Kong

The following is a summary letter issued by Censere (Far East) Limited, a regional financial valuation firm, in connection with their valuation as at 30th September, 2004 of Matsunichi Trademarks for the purpose of inclusion in this circular.


Censere
appraise ♦ assist ♦ advise

Level 25
Bank of China Tower
1 Garden Road, Central
Hong Kong
Tel (852) 2511 2011
Fax (852) 2511 2005

7th January, 2005

The Directors
Matsunichi Communication Holdings Limited
22/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

Dear Sirs,

In accordance with your instructions, we have undertaken research and analysis to determine the market value of the trademarks, service marks, logos and commercial symbols of “Matsunichi”, “松日”, “” and “數碼皇后” (the “Trademarks”) as at 30th September, 2004 (the “Valuation Date”). This summary letter outlines the key findings of our investigation which are more fully explained in our detailed report dated 7th January, 2005.

BACKGROUND

Matsunichi Communication Holdings Limited (the “Company”) is a company listed on The Stock Exchange of Hong Kong (the “Stock Exchange”). The Company and its subsidiaries (collectively, the “Group”) are principally engaged in the manufacturing and trading of digital consumer electronic products.

According to the management of the Company (the “Management”), the Trademarks, which were licensed to a wholly-owned subsidiary of the Company named Matsunichi Hi-Tech Limited (“MHT”) in 2002 on a non-exclusive basis, are widely incorporated in their digital consumer electronic products.

Since the Company is a listed company and its shares are publicly traded on the Stock Exchange under the name of Matsunichi, it is beneficial to the listed company if it can secure the exclusive full ownership of such Trademarks. Given these circumstances, the Group has proposed the acquisition of the Trademarks from its major shareholder and Censere was engaged as an independent professional party to undertake a market valuation of the Trademarks for the board of directors of the Company to use as a reference in the proposed acquisitions.

INTRODUCTION

The Trademarks are registered in many countries and districts, both in and outside the PRC. According to the registration certificates provided by the Group, the Trademarks registered in Hong Kong and outside the PRC are all under class 9 (for products including consumer electronic products) while the Trademarks registered in the PRC are under various combinations of class 7 (for products including machine and machine tools), class 9 and class 11 (for products including household appliances).

We understand that two separate deeds were signed between MHT (the “Licensee”) and the three companies which are the registered owners of the Trademarks on 9th December, 2002. Each deed allows the Licensee to use the corresponding Trademarks non-exclusively on MP3 players and certain consumer electronic products, for a period of 3 years commencing from 1st November, 2002 for a consideration of HK\$1 (One Hong Kong Dollar) per annum.

Details of the Deeds are summarized as follows:

Licensors	Matsunichi International Holdings Limited
Licensee	Matsunichi Hi-Tech Limited
Use of Trademarks	MP3 players and certain consumer electronic products
Rights of Use	Non-exclusive
Countries involved under License	Anywhere in the world except the PRC
Sub-License of Trademarks	Not allowed

Table 1: Deed in relation to the Trademarks registered in Hong Kong and in the countries or districts outside the PRC.

Licensors	Guangdong Matsunichi Electronics Limited and Guangdong Matsunichi Communications Technology Company Limited
Licensee	Matsunichi Hi-Tech Limited
Use of Trademarks	MP3 players and certain consumer electronic products
Rights of Use	Non-exclusive
Countries under License	The PRC excluding Hong Kong, the Macau Special Administration Region and Taiwan
Sub-License of Trademarks	Not allowed

Table 2: Deed in relation to the Trademarks registered in the PRC.

The Trademarks are valued on a market value basis as at 30th September, 2004 (the “Valuation Date”). We understand that, in addition to the products produced by the Group which bear the Trademarks, certain other products are produced by other companies belonging to the major shareholder of the Company which also bear the Trademarks. The volume of these other products is relatively small in comparison to those produced by the Group. We were informed that the Group and the major shareholder, Mr. Pan Su Tong (“Mr. Pan”), have mutually agreed that the other companies belonging to the major shareholder will cease to use the Trademarks for any purposes except as part of the name of certain private companies controlled by Mr. Pan and as the name of a building located in Shaoquan (韶關), the PRC upon completion of the acquisition. We have therefore solely considered the current operations of the Group in arriving at our value for the Trademarks.

We have not attached a value to “數碼皇后” as it has never been used by the Group and has not been used by the private group since registration. In addition, we have not considered the potential licensing royalty income of the Trademarks to be generated from products under class 7 and class 11 because the products currently produced by the Group do not fall within these two classes.

VALUATION OF TRADEMARKS

We have adopted the market value basis in valuing the Trademarks. Market value is defined as the estimated amount for which an asset should be exchanged on the valuation date between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties have each acted knowledgeably, prudently and without compulsion.

In valuing the Trademarks, we have assumed that the Group will continue to operate as a going concern with no significant change in its business and operations. We also assumed that there are no other liabilities including contingent liabilities or unusual contractual obligations or substantial commitments which would have a material effect on the value of the Trademarks.

In arriving at our assessed value of the Trademarks, we have considered the market approach and income approach. In this valuation, the market approach is not appropriate as there are few comparable transactions, and insufficient public data for those transactions, to form an opinion of value. We have therefore applied the income approach in valuing the Trademarks. Under the income approach, we have used the Relief From Royalty Approach, which we consider a scientific and systematic approach, in determining the value of the Trademarks.

Relief From Royalty Approach

The Relief From Royalty Approach is based on the rationale that the value of a trademark can be measured by how much the owner of the trademark would pay in royalties if he/she did not own the trademark and had to license it from a third party.

We consider the Relief From Royalty Approach to be the most appropriate method in valuing the Trademarks because it reflects the potential amount that will be paid by the Company in the future if it had to license them from the owner of the Trademarks after expiration of the two existing deeds, assuming that new licenses are based on normal commercial terms.

Under this approach, value of the Trademarks is determined based on the Group’s Estimated Sales Turnover (“EST”), a reasonable trademark royalty rate in the consumer electronic industry, an appropriate capitalization multiple and a discount rate.

In determining the EST of the Group, we have studied the historical performance of the Group for FY02/03 and FY03/04. We have held in-depth interviews with Management about the future prospect of the business using the Trademarks, the background of its major customers as well as the seasonal effect of the industry in arriving at our estimation of the EST of the Group.

The Trademark royalty rate was obtained by analysis of similar transactions in the electronics industry in the period between 2001 to 2004. Our research results are summarized as follows:

Cases	Location of Listing	Products and Application	Royalty rates charged
TCL International Holdings Limited	Hong Kong	Manufacture and sale of TV products (non-sublicensable and non-transferable)	<p>In Asia Pacific</p> <ul style="list-style-type: none"> • 0.5% on net sales, if EBIT¹ percentage is equal to or greater than 3% but less than 6% • 1.5% if the EBIT percentage is over 6% <p>Worldwide outside Asia Pacific</p> <ul style="list-style-type: none"> • 0.25% on net sales, if EBIT percentage is equal to or greater than 3% but less than 6% • 0.75% on net sales, if EBIT percentage is over 6% <p>Other conditions</p> <ul style="list-style-type: none"> • 0.5% of the aggregate annual net sales of TV products as the reimbursement of branding advertising costs
Samsung Electronics Company Limited	Korea	Home appliances (including washing machines, air-conditioners and microwave ovens)	<ul style="list-style-type: none"> • 1% on domestic sales in India • 2% on export sales
Industry average		Electrical & Electronics	<ul style="list-style-type: none"> • 4.2% <p>(Transaction analysis result extracted from RoyaltySource® and was quoted in the presentation jointly held by Intellectual Property Research Associates, Inc. and AUS Consultants, Inc. on 5th June, 2003)</p>

¹ EBIT is the abbreviation of “Earnings before interest expenses and taxation”.

In deriving a reasonable trademark royalty rate for this project, we have not been able to locate any directly comparable market data relating to licensing of trademarks applied to MP3 players. Therefore we have had to rely to a considerable extent on the above research results as it gives us a good indication of the relationship between royalty rates and EBIT margins in the consumer electronic industry. We have been able to identify trademark transactions entered into by two consumer electronic manufacturers, namely TCL and Samsung, details of which are summarised in the above table. We have arrived at a royalty fee of 3% for the Trademarks after studying the above data, which we consider a relevant benchmark, and in particular, taking consideration the respective EBIT margins of TCL and the Group.

Based on our calculations, we consider a 3% royalty rate would be appropriate in this case because –

- Products produced and sold by the Group under the Trademarks are high-end consumer electronic products, as compared to the lower-end and traditional electronic products sold by TCL and Samsung. As a result, the EBIT margin of the Group is higher than that of TCL and Samsung.
- Trademarks to be acquired by the Group can be applied to a range of products much broader than those of TCL and Samsung.

The capitalization multiple is a measure of the value of an asset as a ratio of what it can earn in a single year. It reflects how many dollars investors in the market are willing to spend to acquire one dollar of earnings generated by a comparable asset engaged in the same industry (or at least with the same risk profile). Put another way, the capitalization multiple is used to convert a single period's earnings into an indication of value.

For the purpose of valuing the Trademarks, we have applied a capitalization multiple of approximately 7.3 times. We have taken into consideration the EV/EBITDA ratio as at 30th September, 2004 of the Group as well as the same ratio of other comparable listed companies engaged in the manufacture and sales of MP3 players or data storage devices such as Decktron, Reigncom, Imation, Lexar Media, etc. Though these comparable companies are listed on different stock markets such as KOSDAQ, NYSE and NASDAQ, we are of the view that they could serve as a reasonable benchmark for assessing a reasonable capitalization multiple for the Trademark earnings.

The discount rate indicates the minimum expected rate of return that a shareholder of the Company will accept for any acquisitions proposed by the listed company. In determining a discount rate for this proposed acquisition, we have used the return on equity ("ROE") of the Group as at 31st March, 2004 and arrived at a discount rate of approximately 19.7%.

KEY ASSUMPTIONS

We have made the following key assumptions in our valuation and these apply throughout unless otherwise stated:

- Information provided by the directors or management of the Company accurately reflects the financial and operating position of the Group;

- There will be no adverse changes to the operation of the Group;
- The availability of financing will not be a constraint on the future growth of the Group's operation;
- There will not be any material change in political and/or economic conditions under which the Group operates that may adversely affect the valuation of the Trademarks;
- The Group has sufficient operational resources to support its ongoing operation; and
- There will be no major changes in the foreign exchange policy of the RMB and the other major currencies that the Group is dependent upon that would significantly affect the financial position and forecast of the Group.

Any deviation from the above assumptions may significantly vary the valuation result of the Trademarks.

OPINION OF VALUE

Based on our research and analyses, we are of the opinion that the market value of the Trademarks as at the Valuation Date is fairly stated in the amount of HK\$217 million (Hong Kong Dollars Two Hundred and Seventeen Million).

The value of the Trademarks is only an indicative quantum at which interests in them might reasonably be expected to be sold at the valuation date, and may be different from the actual transacted price.

We confirm that we have carried out research, made relevant inquiries and obtained such information considered pertinent to this project from the directors or management of the Company. We have obtained assurance from the directors of the Company that the information they provided to us accurately reflects the financial and operating position of the Group. We also confirm that we have no present or contemplated interest in the assets which are the subject of this valuation and are acting independent of all parties.

Yours faithfully
For and on behalf of
Censere (Far East) Limited
Brett A. Shadbolt
Managing Director
ASA MHKSI SNZPI MCI. Arb

Note: Mr. Brett Shadbolt is an Accredited Senior Appraiser of the American Society of Appraisers ("ASA") and is a Member of the Hong Kong Securities Institute. He has signed a number of reports for similar assignments in Hong Kong including similar assignments for listed companies in Hong Kong over the last 10 years. Mr. Brett Shadbolt possesses extensive experience in valuing intellectual property, corporate entities and investment projects for various multi-national enterprises in Asia Pacific.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Listing Rules, to be notified to the Company and the Stock Exchange was as follows:

Name of Director	Nature of interest	Number of shares, underlying shares and debentures of the Company interested or deemed to be interested (long position)	Approximate percentage of shareholding (Note 4)
Mr. Pan	Held by a controlled corporation (Note 1)	436,202,894	85.68%
Mr. Siu Wai Yip	Beneficial	1,500,000 (Note 3)	0.29%
Mr. Huang Hui	Beneficial	1,134,000 (Note 4)	0.22%
Mr. Dong Zhi Qiang	Beneficial	300,000 (Note 5)	0.06%

Notes:

- Jade Forest Limited ("Jade Forest") held 341,202,894 Shares out of the 436,202,894 Shares, Jade Forest was 100% owned by Mr. Pan as at the Latest Practicable Date. Accordingly, Mr. Pan was deemed to be interested in the 341,202,894 Shares held by Jade Forest.

Pursuant to the MIHL Agreement and the GD Agreement, 95,000,000 Shares are expected to be issued to MIHL and/or its nominee as consideration for the acquisition of the Trademarks (including the PRC Rights) by Matsunichi Hi-Tech Limited. As at the date hereof, MIHL was beneficially owned as to 99% by Matsunichi (BVI) Holdings Limited and as to 1% by Mr. Pan and Matsunichi (BVI) Holdings Limited is wholly and beneficially owned by Mr. Pan. Mr. Pan was deemed to be interested in the said 95,000,000 Shares.

2. The percentage is calculated by dividing the number of Share interested or deemed to be interested by the existing 509,086,683 issued Shares as at the Latest Practicable Date.
3. The interest in 1,500,000 Shares represents the Shares which may fall to be allotted and issued upon exercise in full of the share options granted by the Company to Mr. Siu Wai Yip under the share option scheme (“Share Option Scheme”) of the Company.
4. The interest in 800,000 Shares of the 1,134,000 Shares represents the Shares which may fall to be allotted and issued upon exercise in full of the share options granted by the Company to Mr. Huang Hui under the Share Option Scheme.
5. The interest in 300,000 Shares represents the Shares which may fall to be allotted and issued upon exercise in full of the share options granted by the Company to Mr. Dong Zhi Qiang under the Share Option Scheme.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code in the Listing Rules, to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, save as disclosed in this circular and that Mr. Pan, being an indirect shareholder in GME and GMCT, the licensors in the License Deeds, none of the Directors is materially interested in any contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Company.

As at the Latest Practicable Date, save for the Acquisitions, none of the Directors or experts (as named in the paragraph headed “Experts and Consents”) had any direct or indirect interest in any assets which had been, since 31st March, 2004 (the date to which the latest published audited accounts of the Company were made up), (i) acquired or disposed of by; or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to any member of the Group.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to any Directors or chief executives of the Company, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital:

Name	Capacity/ Nature of interest	Number of shares, and underlying shares of the Company interested or deemed to be interested (long position)	Approximate percentage of shareholding (Note 3)
Jade Forest	Beneficial (Note 1)	341,202,894	67.02%
MIHL	Other (Note 2)	95,000,000	18.66%
Matsunichi (BVI) Holdings Limited	Held by a controlled corporation (Note 2)	95,000,000	18.66%

Notes:

- Jade Forest was 100% owned by Mr. Pan as at the Latest Practicable Date.
- Pursuant to the MIHL Agreement and the GD Agreement, 95,000,000 Shares are expected to be issued to MIHL and/or its nominee as consideration for the acquisition of the Trademarks (including the PRC Rights) by Matsunichi Hi-Tech Limited. As at the date hereof, MIHL was beneficially owned as to 99% by Matsunichi (BVI) Holdings Limited and as to 1% by Mr. Pan, Matsunichi (BVI) Holdings Limited was deemed to be interested in the said 95,000,000 Shares.
- The percentage is calculated by dividing the number of Share interested or deemed to be interested by the existing 509,086,683 issued Shares as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors or chief executives of the Company, no other persons (not being a Director or chief executive of the Company) had any interests or short positions in shares or underlying shares of the Company which are required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, nor were there any persons, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or held any option in respect of such capital.

5. MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business, have been entered into by members of the Group, within the two years preceding the date of this circular and is or may be material:

1. A sale and purchase agreement dated 28th January, 2003 entered into between Full Ahead Limited, a then indirect wholly-owned subsidiary of the Company, as vendor and Joybridge Services Limited as purchaser in relation to the disposal of the entire issued share capital of Grand Allied Profits Limited at a consideration of HK\$434,903.45;
2. A subscription agreement the Company and the Jade Forest Limited and a placing agreement between Jade Forest Limited and Emperor Securities Limited both dated 9th April, 2003 regarding the issue and placing 141,400,000 Shares at the issue price of HK\$0.18 per Share;
3. An underwriting agreement entered into between Jade Forest Limited, Emperor Securities Limited, HT Securities Limited and Interchina Securities Limited and the Company dated 31st July, 2003 in relation to the subscription of rights shares under, and the underwriting of a right issue;
4. A conditional sale and purchase agreement entered into between the Company, Matsunichi Communications (Hong Kong) Limited and Mr. Pan Su Tong dated 31st July, 2003 in relation to an acquisition by the Company of the entire issued share capital of Best Concord Group Limited;
5. A sales and purchase agreement dated 26th September, 2003 entered into between Future Blossom Limited, a then direct wholly-owned subsidiary of the Company, as vendor and Value Place Investments Limited as purchaser in relation to the disposal of the entire issued capital of Hamlet Profits Limited at a consideration of HK\$5,340,000;
6. A sale and purchase agreement dated 30th January, 2004 entered into between the Company as vendor and Joybridge Services Limited as purchaser in relation to the disposal of the entire issued share capital of Future Blossom Limited at a consideration of HK\$100,000;
7. The GD Agreement; and
8. The MIHL Agreement.

6. CLAIMS AND LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

7. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have been named in this circular or have given opinions or advice which are contained in this circular:

Name	Qualification
Grant Thornton (“GT”) Hercules	Certified Public Accountants A licensed corporation under the SFO to carry out type 6 regulated activity (advising on corporate finance)
Censere (Far East) Limited (“Censere”)	A regional financial valuation firm

Each of GT, Hercules and Censere has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter or references to its name in the form and context in which they respectively appear.

Neither GT, Hercules nor Censere has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Neither GT, Hercules nor Censere has any direct or indirect interests in any assets which have been, since 31st March, 2004 (being the date to which the latest published audited accounts of the Company were made up), (i) acquired or disposed of by; or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to any member of the Group.

8. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company or any member of the Group which does not expire or is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

11. DIRECTORS’ INTERESTS IN COMPETING BUSINESSES

As at the Latest Practicable Date, none of the Directors and his/her associates was interested in any business which competes or is likely to compete, either directly or indirectly, with business of the Group.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal office of the Company at 22/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong, from the date of this circular up to and including 24th January, 2005:

- the Company’s memorandum and articles of association;

- the material contracts referred to in the paragraph headed “Material Contracts” in this appendix;
- the statements signed by GT setting out their opinion on the adjustments made on the Pro Forma Statement of Assets and Liabilities of the Enlarged Group as set out in paragraphs 1 and 2 respectively of Appendix III to this circular;
- the valuation report of Censere as referred to in Appendix IV of this circular;
- the letter from the Independent Board Committee dated 7th January, 2005, the text of which is set out on page 17 of this circular;
- the letter of advice from Hercules dated 7th January, 2005, the text of which is set out on pages 18 to 36 of this circular;
- the letters of consent referred to under the section headed “Experts and Consents” in this appendix;
- the annual reports of the Company for each of the two financial years ended 31st March, 2004; and
- the interim report of the Company for the six months ended 30th September, 2004.

13. MISCELLANEOUS

- The company secretary and qualified accountant of the Company is Ng Chi Ho, Dennis. He is an associate member of Hong Kong Institute of Certified Public Accountants and Institute of Chartered Accountants in Australia.
- The branch share registrar of the Company in Hong Kong is Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- The business address of the Directors is at 22/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.
- The English text of this circular prevails over the Chinese text.

NOTICE OF THE EXTRAORDINARY GENERAL MEETING



MATSUNICHI COMMUNICATION HOLDINGS LIMITED

松日通訊控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 283)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Matsunichi Communication Holdings Limited (the “**Company**”) will be held at 11:00 a.m. on Monday, 24th January, 2005 at 22/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong, for the purposes of considering and, if thought fit, passing (with or without amendments) the following resolution as Ordinary Resolution of the Company:

ORDINARY RESOLUTION

1. “**THAT** (i) the conditional sale and purchase agreement dated 3rd November, 2004 (copy of which has been produced to this meeting marked “A” and signed by the Chairman of the meeting for identification purposes) entered into among Matsunichi Hi-Tech Limited, Matsunichi International Holdings Limited and Mr. Pan Su Tong (the “MIHL Agreement”); and (ii) the conditional sale and purchase agreement dated 3rd November, 2004 (copy of which has been produced to this meeting marked “B” and signed by the Chairman of the meeting for identification purposes) entered into among the Matsunichi Hi-Tech Limited, Matsunichi International Holdings Limited, 廣東松日通訊科技股份有限公司 (Guangdong Matsunichi Communications Technology Company Limited), 廣東松日電器有限公司 (Guangdong Matsunichi Electronics Limited) and Mr. Pan Su Tong (the “GD Agreement”), and the transactions contemplated under the MIHL Agreement and the GD Agreement be and are hereby approved, confirmed and ratified and that the directors of the Company or any of them be and are hereby authorised with full power:–
 - (i) to sign, seal, execute, perfect and deliver all such documents and do all such deeds, acts, matters and things as they may in their discretion consider necessary or desirable for the purpose of or in connection with the implementation of the MIHL Agreement and the GD Agreement; and
 - (ii) subject to completion of the MIHL Agreement and the GD Agreement, to allot and issue such number of new ordinary shares of HK\$0.05 each in the capital of the Company (“Shares”) as is determined in accordance with the terms of, and in satisfaction of the consideration payable by the Company under, the MIHL Agreement and the GD Agreement, such new Shares to be issued and credited as fully paid and ranking *pari passu* in all respects with all the existing issued Shares.”

By order of the Board
Ng Chi Ho, Dennis
Company Secretary

Hong Kong, 7th January, 2005

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
2. In order to be valid, the form of proxy together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited at the Company's registered office not less than 48 hours before the time for holding the meeting or any adjourned meeting.
3. As at the date hereof, the Board of directors comprises Mr. Pan Su Tong, Mr. Siu Wai Yip, Mr. Huang Hui and Mr. Dong Zhi Qiang as executive directors, Mr. Lai Chi Kin, Lawrence, Dr. Ng Lai Man, Carmen and Mr. Cheng Kwan Wai as independent non-executive directors of the Company.