

On behalf of the Board of Directors, I am pleased to present the annual report of Matsunichi Communication Holdings Limited (the "Company") together with its subsidiaries (the "Group") for the year ended 31st March, 2006.

### RESULTS

For the year ended 31st March, 2006, the Group recorded turnover amounting to HK\$2,314 million (2005: HK\$1,704 million), achieving year-on-year growth of approximately 36%. The improved performance was mainly attributable to a significant increase in sales volume of the Group during the year, as demand for digital audio products and related digital consumer electronics grew steadily across the board and the Group expanded its markets, both internationally and in the PRC.

As competition became more matured, and the Group lowered the blended average selling price of its products in response to a drop in component prices, the Group's gross profit margin declined from 24% last year to 17% this year. Despite the fall in gross profit, net profit for the year improved by 10% to HK\$215 million as compared to HK\$196 million recorded in financial year 2005, net profit margin for the period under review fell slightly to 9.3% as compared to 12% in the corresponding period of last year. The improvement in net profit was mainly achieved due to the Group's increased sales coupled with stringent cost control measures.

### FINAL DIVIDEND

The Directors are pleased to recommend a final dividend of HK4 cents per share to our shareholders whose names appear on the register of members of the Company on 23rd August, 2006. Subject to approval at the forthcoming Annual General Meeting, dividends will be sent to shareholders on or about 16th October, 2006. Together with the interim dividend of HK5 cents per share and a special dividend of HK7 cents per share paid to the shareholders on 1st February, 2006, the total dividend per share for the year will be HK16 cents.

本人謹此代表董事會，欣然提呈松日通訊控股有限公司（「本公司」）及其附屬公司（「本集團」）截至二零零六年三月三十一日止年度之年報。

### 業績

截至二零零六年三月三十一日止年度，本集團錄得營業額達2,314,000,000港元（二零零五年：1,704,000,000港元），按年增長約36%。表現提升主要是由於對數碼音響產品及相關數碼消費電子產品之需求全面穩步上升，加上本集團擴展其於世界各地及中國之市場，令年內本集團之銷售數量顯著增加。

由於競爭日趨劇烈及本集團降低其產品之組合平均售價以回應組件價格下降，令本集團之毛利率由去年之24%下降至本年之17%。雖然毛利下跌，但年度純利上升10%至215,000,000港元，而二零零五財政年度則錄得196,000,000港元；回顧期內之純利率輕微下跌至9.3%，而去年同期則為12%。純利上升主要是由於本集團之銷售增加配合嚴格之成本控制措施所致。

### 末期股息

董事欣然建議向於二零零六年八月二十三日名列本公司股東登記冊之股東派付末期股息每股4港仙。待於應屆股東週年大會上獲得批准後，股息將於二零零六年十月十六日或該日前後寄發予股東。連同於二零零六年二月一日支付之中期股息每股5港仙及特別股息每股7港仙，年度股息總額為每股16港仙。

# Chairman's Statement

## 主席報告書

### PROSPECTS

Looking forward, the Group remains optimistic about the outlook for the financial year ahead. Both the American and European economies appear to be on a reasonably firm footing. The Group expects the strong momentum of digital products will continue in the coming year, and will leverage on its existing strengths and further enhance its processes to capture this growth. However there will be challenges as rising short term interest rates and high oil prices may restrain consumer spending. The Group's future development is not, as with some competitors, largely staked on a single model or design template. Its strength rather lies in the fact that it is geared to a wide design range, as well as a diverse product range, appealing to many different customers with specific needs and varying tastes.

As one of the major manufacturers of high capacity micro hard disk memory storage products, the Group holds a strong advantage in a field that still has relatively few competitors. To further its competitive advantage, as well as maintain its profitability margins through value-added processes, the Group will develop software to further enhance the product's functionality, along with encryption and other data protection features.

The Group is also looking to high profit margin Personal Multimedia Players (PMPs) and other multimedia electronic products as growth drivers. Industry analyst International Data Corporation (IDC) have estimated that between 2005 and 2008, global shipments of PMPs will rise from 1.5 million units to 90 million units, at a CAGR of approximately 290%. The Group is poised to capture a share in this lucrative market, with new models to be launched which contain further value-added functions such as Global Positioning System (GPS) and digital broadcast reception capabilities.

In addition to existing product lines, the Group is looking to diversify into other digital devices. The Group has developed a digital photo frame which has the ability to display digital photos in a traditional frame setting. This product is yet to be widely available in the market and the Group believes it will be a strong contributor in the coming financial year.

### 前景

展望未來，本集團對往後財政年度之展望仍然樂觀。美國及歐洲之經濟基礎似乎已頗為穩固。本集團預期數碼產品之強大動力將會於未來一年持續，而本集團將運用其現有優勢及進一步增強其營運程序以掌握此項增長機遇。然而，由於短期利率上升及油價上漲均可能壓抑消費開支，故本集團將會面對挑戰。與若干競爭對手不同，本集團之未來發展並非全賴單一型號或設計模板。事實上，本集團之優勢在於產品適合多樣設計及廣泛之產品系列，可吸引眾多具有不同要求及品味之客戶。

作為大容量微硬碟記憶儲存產品之主要製造商之一，本集團在缺少競爭對手之情況下佔盡優勢。為進一步增強其競爭優勢及透過增值過程維持其盈利率，本集團將開發軟件，以進一步加強產品之功能、加密功能和其他數據保護功能。

本集團現時亦計劃以利潤較高之個人多媒體播放機(PMP)及其他多媒體電子產品作為增長動力。業內分析公司－國際數據公司(International Data Corporation)(IDC)已估計於二零零五年至二零零八年間，PMP之全球付運量將由1,500,000部飆升至90,000,000部，年複合增長率約290%。本集團銳意進佔這個盈利潛力優厚之市場，而即將推出之新型號具備更多增值功能，例如全球定位系統(GPS)及數碼電視接收能力。

除現有產品線外，本集團計劃多元化發展其他數碼器材。本集團已開發一款數碼相框，具備於傳統框架設定展示數碼相片。該產品仍有待在市場廣泛銷售，而本集團相信該產品將會於下一個財政年度成為重要盈利來源。

Further down the track, the Group will focus to further increase the global profile of its Matsunichi brand name. Given the lower profit margins involved in ODM sales, the Group is aiming to shift its ODM/OBM mix, with the goal of building OBM sales to make up a higher portion of overall sales revenue as compared to the current mix. By leveraging on the platform of its brand recognition generated initially by sales of digital audio products, its close relationship with worldwide distribution channels, and its worldwide marketing strategy, the Group hopes to bring the brand to a higher level, and introduce additional OBM products into retail chains.

### MANAGEMENT DISCUSSION AND ANALYSIS BUSINESS REVIEW

#### Continued expansion of major international markets

During the period under review, the Group made significant inroads into the North American market, with the Group being able to secure existing and further expanding its distribution channels both in the US and Canada. Currently, leading retail channels in North America carry the Group's storage products, and during the second half of the period under review, the Group has also launched its own brand digital products through these channels. This has led to an increasing global profile for the Group's "Matsunichi" brand name.

The Group enjoys a strong presence in Europe, with the UK and Germany being the leading markets. In both countries, the Group's own brand products are sold through major electronics retail chains.

In Asia, the Group continues to enjoy a strong presence in China, with sales of digital audio products accounting for a large proportion of turnover attributable to this region. During the period under review, the Group successfully moved outside its three core Asian markets to tap into the growing demand for digital products in other South Asian and Asia Pacific countries.

除此以外，本集團將專注進一步提升其松日品牌之全球知名度。由於原創設計製造銷售帶來之利潤偏低，本集團計劃改變其原創設計製造／原創品牌製造組合，目標為將原創品牌製造銷售佔整體銷售收入比例增加至高於目前組合。透過運用其品牌知名度平台銷售數碼音響產品、本集團與世界各地分銷渠道之密切關係及於世界各地之市場推廣策略建立，期望將本集團品牌推升至更高水平及向零售連鎖店推介更多原創品牌製造產品。

### 管理層討論及分析 業務回顧

#### 繼續拓展主要海外市場

於回顧期內，本集團於北美市場取得重大進展，並已能夠穩佔現有及進一步擴大其於美國及加拿大兩地之分銷渠道。目前，北美多個大型零售渠道均有代售本集團之記憶體產品，而於回顧期之後半期，本集團已透過該等渠道推出其本身品牌數碼產品。此舉亦提升本集團之「松日」品牌於全球市場之知名度。

本集團於歐洲之業務表現優異，其中以英國及德國為主要市場。在該兩國，本集團之原創品牌產品均透過主要電子連鎖式零售店出售。

亞洲方面，本集團於中國之業務表現繼續優異，其中數碼音響產品銷售額更佔該地區營業額之極高百分比。於回顧期內，本集團成功衝出其三個核心亞洲市場，吸納其他南亞及亞太地區國家對數碼產品正在上升之需求。

# Chairman's Statement

## 主席報告書

### Expansion of Market Share and Cost Control

In the period under review, the Group continued to launch new products across its range of digital devices to further capture a larger market share in its core operating markets. Through the Group's close relationship with its distribution channels, coupled with a successful marketing strategy, the Group has seen significant growth in the sales of its products, in particular USB storage devices. The number of USB storage devices sold during the period increased as compared to a year ago, reflecting the continued growth of market demand for these products. Furthermore, in the midst of rapid decrease in the price of memory modules, the Group has strived to actively manage the average selling price of these products through the implementation of a "build-to-order" business model, thereby better controlling inventory levels and in effect managing the gross profit margin.

### Global Marketing Strategy

During the period under review, the Group has leveraged on the enormous exposure received through the signing of US 6-time Olympic gold medalist Michael Phelps as its global spokesperson. The Group has found that its association with Phelps not only heightens the brand image of "Matsunichi", but also improves its ability to negotiate with major retail chains both in Europe and the US. This added benefit will allow the Group easier access to introduce its own brand products, which in turn will further broaden the brand in these markets. Matsunichi is now one of the few Asian brands in the industry to enjoy a high level of exposure in the European and US markets.

During the year, the Group attended the International Consumer Electronics Show (CES) held in the United States, as well as the CeBIT trade fair held in Germany. These are the two largest trade fairs held annually to showcase the latest digital electronic and communication products. Through its attendance, the Group was able to successfully raise the global profile of its Matsunichi brand name, as well as attract new customers and also maintain relationships with existing ones.

### 擴大市場佔有率及成本控制

於回顧期內，本集團繼續推出新產品，種類遍及其各種數碼器材，務求於其核心業務市場進一步爭取更高之市場佔有率。透過與分銷渠道之緊密關係，配合成功之市場推廣策略，本集團於其產品（尤其於USB儲存器材）銷售錄得顯著增長。期內出售之USB儲存器材數目較一年前上升，反映市場對該類產品之需求持續增長。此外，面對記憶體模組價格迅速下跌，本集團已透過實行「按單生產」業務模式，致力主動調節該類產品之平均售價，藉此更有效控制存貨水平及毛利率。

### 全球市場推廣策略

於回顧期內，透過邀請美國6項奧運金牌得主菲爾普斯 (Michael Phelps) 擔任本集團全球代言人，本集團已廣受注視。本集團發現與菲爾普斯之合作不單提升「松日」品牌形象，亦提升其與歐洲及美國主要電子連鎖式零售店之協商能力。此項額外利益令本集團於推出本身品牌產品系列時更為容易。松日現已成為業內少數在歐洲及美國市場擁有極高知名度之亞洲品牌之一。

年內，本集團出席於美國舉行之International Consumer Electronics Show (CES)，以及於德國舉行之CeBIT貿易展銷會。該兩個是每年均會舉行之最大規模展銷會，展出最新款數碼電子及通訊產品。本集團透過出席以上活動，已能夠成功提升松日品牌之全球知名度。

### LIQUIDITY AND FINANCIAL RESOURCES

The Group's working capital as at 31st March, 2006 amounted to HK\$874 million, representing an increase of approximately 22% as compared to the corresponding period of last year. During the period under review, trade receivables generally remained static as compared to the previous year, however taking into account the overall growth in turnover, this has proved to be a significant area of improvement for the Group. Inventories as at 31st March, 2006 were lowered by approximately 63% as compared to last year as the Group's "build-to-order" strategy successfully managed the level of inventory on hand.

Attributable to the overall improved performance during the year, the Group's bank balances and cash jumped up from HK\$514 million to HK\$1,305 million, representing a surge of 154%. Despite the increased cash balances of the Group, the current ratio of the Group dropped slightly from 2 times in the previous financial year to 1.8 times this year. The decrease in the current ratio was triggered by the significant increase in bank borrowings from HK\$302 million to HK\$891 million. The Group utilized higher levels of short-term bank financing to cover the rapid growth in production in response to higher market demand during the year, as well as to maintain a sufficient level of working capital to capture the benefits of any business opportunities that may arise during the period. The increase in finance costs during the period is consistent with the additional short-term financing used.

In the period under review, the Group showed a significant improvement in its operating cashflow. Net cash inflow from operations for the year amounted to HK\$326 million as compared to a net cash outflow of HK\$31 million last year. This substantial increase is mainly attributable to the Group's improved management of trade receivables despite a growth in turnover, as well as the reduction in the level of its inventory.

### 流動資金及財務資源

本集團於二零零六年三月三十一日之營運資金為874,000,000港元，較去年增加約22%。於回顧期內，應收賬款大致上保持於去年水平，然而，考慮到營業額整體增長之情況，對本集團而言，應收賬款水平屬於出現顯著改善。於二零零六年三月三十一日之存貨較去年減少約63%，原因為本集團之「按單生產」策略成功調節手頭存貨水平。

源於年內之整體表現提升，本集團之銀行結餘及現金由514,000,000港元跳升至1,305,000,000港元，增幅達154%。雖然本集團現金結餘增加，但本集團之流動比率由前一財政年度之2倍輕微下跌至本年度之1.8倍。流動比率下跌是由於銀行借款由302,000,000港元顯著增加至891,000,000港元所致。本集團動用較高水平之短期銀行融資，以應付因年內市場需求上升導致生產業務之急速增長，以及維持足夠水平之營運資金，以掌握於期內可能出現之任何業務商機帶來之利益。期內融資成本增加與採用額外短期融資之情況相符。

於回顧期內，本集團之經營現金流量錄得顯著升幅。年內經營業務現金流入淨額為326,000,000港元，而去年則為現金流出淨額31,000,000港元。經營業務現金顯著增加之主要原因為本集團於貿易應收賬款之管理改善，以及降低其存貨水平所致。

# Chairman's Statement

## 主席報告書

### FOREIGN EXCHANGE RISKS

The Group's monetary assets and liabilities were principally denominated in Hong Kong dollars, Renminbi and US dollars. With the Hong Kong dollar pegged to the US dollar, and there having been minimal fluctuation in exchange rate between Hong Kong dollars and Renminbi, the Group's exposure to currency exchange risk was minimal.

### EMPLOYMENT AND REMUNERATION POLICY

As at 31st March, 2006, the Group had a total number of approximately 500 (2005: 680) employees.

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

### APPRECIATION

On behalf of the Board of Directors, I would like to express my thanks and recognition towards our management team and employees. Their dedication and commitment to the Group has been vital in achieving the successes of the past year. Thanks are due also to our highly-valued customers, our business associates and of course our shareholders for their loyalty and support during the year.

Chairman  
**Pan Su Tong**

### 外匯風險

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

### 僱員及酬金政策

於二零零六年三月三十一日，本集團合共約有僱員 500 名（二零零五年：680 名）。

本集團之僱員薪酬政策及方案乃參照市場水平及適用之法定規定制訂。此外，本集團亦為其僱員提供其他員工福利，例如醫療保險、強制性公積金及購股權計劃。

### 致謝

本人謹代表董事會，感謝及表揚本集團之管理層及僱員，彼等之竭誠與努力對本集團過去一年之成功至為關鍵。本人亦向本集團之尊貴客戶、商業夥伴及股東一直以來之忠誠及支持表示衷心感謝。

主席  
**潘蘇通**