



Matsunichi Communication Holdings Limited

Stock Code : 283

天津

2007/08

Interim Report

CORPORATE INFORMATION

DIRECTORS

Pan Su Tong (*Chairman*)

Huang Xiaojian

Lai Chi Kin, Lawrence *

Ng Lai Man, Carmen *

Cheng Kwan Wai, Sunny *

** Independent Non-Executive Directors*

COMPANY SECRETARY

Cheng Wing Tsan

REGISTERED OFFICE

22/F., Two International Finance Centre,
8 Finance Street, Central,
Hong Kong

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited

AUDITORS

Deloitte Touche Tohmatsu

REGISTRAR AND TRANSFER OFFICE

Tricor Secretaries Limited

26/F, Tesbury Centre

28 Queen's Road East

Hong Kong

The directors (the “Directors”) of Matsunichi Communication Holdings Limited (the “Company”) are pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2007.

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

	Notes	Six months ended	
		30.9.2007 (unaudited) HK\$'000	30.9.2006 (unaudited) HK\$'000
Turnover	3	1,960,742	1,277,440
Cost of sales		(1,662,817)	(1,042,127)
Gross profit		297,925	235,313
Other operating income	4	34,051	7,983
Gain from increase in fair value of investment properties		690,931	–
Loss from increase in fair value of convertible bonds – embedded derivatives		(120,408)	–
Selling and distribution costs		(12,851)	(19,365)
Administrative expenses		(73,781)	(47,076)
Profit from operations		815,867	176,855
Finance costs		(70,700)	(28,589)
Profit before taxation	5	745,167	148,266
Taxation	6	(186,871)	(5,212)
Profit for the period attributable to equity shareholders of the Company		558,296	143,054
Dividends	7	–	51,519
Earnings per share	8		
– basic		46.98 cents	20.83 cents
– diluted		45.91 cents	20.65 cents

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 SEPTEMBER 2007

	Notes	30.9.2007 (unaudited) HK\$'000	31.3.2007 (audited) HK\$'000
Non-current assets			
Property, plant and equipment	9	212,656	221,140
Trade marks		217,875	224,190
Investment properties	10	1,796,221	–
Prepaid lease payments	11	960,063	5,936
Other assets		90	90
		<u>3,186,905</u>	<u>451,356</u>
Current assets			
Inventories		85,901	59,084
Trade and other receivables	12	1,436,977	980,794
Amounts due from related companies		2,236	2,973
Prepaid lease payments	11	15,507	135
Pledged bank deposits		380,005	799
Bank balances and cash		2,339,342	1,751,274
		<u>4,259,968</u>	<u>2,795,059</u>
Current liabilities			
Trade and other payables	13	300,217	230,677
Amount due to ultimate holding company		–	880
Amount due to a related company	14	11,700	11,700
Taxation payable		31,638	13,951
Bank borrowings – amount due within one year	15	1,353,330	1,193,033
Convertible bonds – embedded derivatives		603,418	–
Obligations under finance leases – amount due within one year	16	140	158
		<u>2,300,443</u>	<u>1,450,399</u>
Net current assets		<u>1,959,525</u>	<u>1,344,660</u>
Total assets less current liabilities		<u>5,146,430</u>	<u>1,796,016</u>
Non-current liabilities			
Obligations under finance leases – amount due after one year	16	212	274
Convertible bonds – liability component		953,385	–
Deferred tax liabilities		172,733	–
Net assets		<u>4,020,100</u>	<u>1,795,742</u>
Capital and reserves			
Share capital	17	59,624	39,391
Reserves		3,960,476	1,756,351
Total equity		<u>4,020,100</u>	<u>1,795,742</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

	Share capital	Share premium	Share-based compensation reserve	Translation reserve	Capital redemption reserve	Capital reserve	PRC statutory reserve	Accumulated profits	Total
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
Balance at 1 April 2006	34,346	1,125,948	9,510	2,615	173	3,605	84,987	84,263	1,345,447
Exchange difference arising on translation of operations outside Hong Kong not recognised in the condensed consolidated income statement	-	-	-	(8,384)	-	-	-	-	(8,384)
Profit for the period	-	-	-	-	-	-	-	143,054	143,054
Final dividend for 2006	-	-	-	-	-	-	-	(27,477)	(27,477)
Balance at 30 September 2006	<u>34,346</u>	<u>1,125,948</u>	<u>9,510</u>	<u>(5,769)</u>	<u>173</u>	<u>3,605</u>	<u>84,987</u>	<u>199,840</u>	<u>1,452,640</u>
Balance at 1 April 2007	39,391	1,393,101	8,031	57,601	173	3,605	107,620	186,220	1,795,742
Exchange difference arising on translation of operations outside Hong Kong not recognised in the condensed consolidated income statement	-	-	-	(70,893)	-	-	-	-	(70,893)
Rights issue of shares	19,851	1,766,727	-	-	-	-	-	-	1,786,578
Expenses incurred in connection with rights issue	-	(9,129)	-	-	-	-	-	-	(9,129)
Exercise of share options	381	12,740	(2,144)	-	-	-	-	-	10,977
Lapse of share options	-	-	(16)	-	-	-	-	16	-
Exercise of warrants	1	140	-	-	-	-	-	-	141
Profit for the period	-	-	-	-	-	-	-	558,296	558,296
Final dividend for 2007	-	-	-	-	-	-	-	(51,612)	(51,612)
Balance at 30 September 2007	<u>59,624</u>	<u>3,163,579</u>	<u>5,871</u>	<u>(13,292)</u>	<u>173</u>	<u>3,605</u>	<u>107,620</u>	<u>692,920</u>	<u>4,020,100</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

	Six months ended	
	30.9.2007 (unaudited) HK\$'000	30.9.2006 (unaudited) HK\$'000
Net cash used in operating activities	(161,549)	(58,289)
Net cash (used in) from investing activities	(2,446,958)	1,685
Net cash from (used in) financing activities	<u>3,261,740</u>	<u>(94,667)</u>
Net increase (decrease) in cash and cash equivalents	653,233	(151,271)
Cash and cash equivalents at the beginning of the period	1,751,274	1,303,571
Effect of foreign exchange rate changes	<u>(65,165)</u>	<u>-</u>
Cash and cash equivalents at the end of the period	<u><u>2,339,342</u></u>	<u><u>1,152,300</u></u>
Analysis of cash and cash equivalents at the end of the period		
Bank balances and cash	<u><u>2,339,342</u></u>	<u><u>1,152,300</u></u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
*FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007***1. BASIS OF PREPARATION**

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange") and with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

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 31 March 2007. In addition, the Group has applied the following accounting policies for investment properties and convertible bonds during the period.

Investment properties

Investment properties, which are properties held to earn rentals and/or for capital appreciation, are measured initially at costs, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair value. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the period in which the item is derecognised.

Convertible bonds

Convertible bonds that contain both the liability and conversion option components are classified separately into respective items on initial recognition. When the conversion options are not settled by the exchange of a fixed amount of cash for a fixed number of equity instruments, the issuer recognises the conversion option component as an embedded derivative. Derivatives embedded in a financial instrument are treated as separated derivatives when their economic risks and characteristics are not closely related to those of the host contract (the liability component) and the host contract is not carried at fair value through profit or loss. At the date of issue, both the conversion option derivatives and liability component are recognised at fair value.

Issue costs are apportioned between the liability component and the conversion option derivative of the convertible bonds based on their relative fair value at the date of issue. The portion relating to the conversion option derivative is charged directly to the profit or loss.

The liability component is subsequently measured at amortised cost, using the effective interest method. The interest charged on the liability component is calculated by applying the original effective interest rate. The difference between this amount and the interest paid is added to the carrying amount of the liability component. The conversion option derivative is subsequently measured at fair value at each balance sheet date.

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 May, 2006, 1 June 2006, 1 November, 2006, 1 January, 2007 or 1 March 2007. The application of the new standards, amendments and interpretations had no material effect on how the results for the current and/or prior accounting periods are prepared and presented.

Potential impact arising from the recently issued Accounting Standards

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The Directors anticipate that the application of these standards, amendments or interpretations will have no material impact on the financial statements of the Group.

HKAS 23 (Revised)	Borrowing Cost ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC) – Int 12	Service Concession Arrangement ²
HK(IFRIC) – Int 13	Customer Loyalty Programmes ³
HK(IFRIC) – Int 14	HKAS 19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction ²

¹ Effect for annual periods beginning on or after 1 January 2009

² Effect for annual periods beginning on or after 1 January 2008

³ Effect for annual periods beginning on or after 1 July 2008

3. SEGMENT INFORMATION

Last year, the Group has one business segment of development and sales of digital consumer products and the Group's primary segment information was reported by geographical. Due to the acquisition of assets and liabilities through acquisitions of subsidiaries during the period as detailed in the section headed "Material Acquisition", the size of the Group's property portfolio has increased significantly. In particular, the Group has made enter into the business of property development and investment following the acquisition. Since then, the Group reorganized its business activities by operations.

The operations of the Group are currently development and sales of digital consumer products and property development and investment. Comparative figures have been restated to conform with current period's presentation.

For the six months ended 30 September 2007

	Development and sales of digital consumer products		Property development and investment		Consolidated	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
REVENUE						
External sales	<u>1,960,742</u>	<u>1,277,400</u>	<u>–</u>	<u>–</u>	<u>1,960,742</u>	<u>1,277,400</u>
RESULT						
Segment results	<u>242,088</u>	<u>181,057</u>	<u>690,931</u>	<u>–</u>	<u>933,019</u>	<u>181,057</u>
Interest income					12,176	5,731
Unallocated corporate expenses					(8,920)	(9,933)
Loss from increase in fair value of convertible bonds – embedded derivatives					(120,408)	–
Profit from operations					815,867	176,855
Finance costs					(70,700)	(28,589)
Profit before taxation					745,167	148,266
Taxation					(186,871)	(5,212)
Profit for the period					<u>558,296</u>	<u>143,054</u>

4. OTHER OPERATING INCOME

	Six months ended	
	30.9.2007 (unaudited) HK\$'000	30.9.2006 (unaudited) HK\$'000
Exchange gain	21,764	–
Interest income	12,176	5,731
Others	111	2,252
	<u>34,051</u>	<u>7,983</u>

5. PROFIT BEFORE TAXATION

	Six months ended	
	30.9.2007 (unaudited) HK\$'000	30.9.2006 (unaudited) HK\$'000
Profit before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	13,532	14,280
Amortisation of trade marks	6,315	6,315
Interest on:		
Bank borrowings wholly repayable within five years	52,990	28,560
Finance leases	19	29
Convertible bonds	17,691	-
	<u>17,691</u>	<u>-</u>

6. TAXATION

	Six months ended	
	30.9.2007 (unaudited) HK\$'000	30.9.2006 (unaudited) HK\$'000
The charge comprises:		
Current taxation		
Hong Kong Profits Tax	-	-
PRC Enterprise Income Tax	(14,138)	(5,212)
Deferred tax	(172,733)	-
	<u>(186,871)</u>	<u>(5,212)</u>

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group did not have any assessable profit in Hong Kong in the current period.

Taxation arising in other countries or other regions in the PRC is calculated at the rates prevailing in the relevant jurisdiction. Pursuant to relevant laws and regulations in the PRC, certain subsidiaries of the Group are entitled to 50% reduction in Enterprise Income Tax under certain tax holidays and concessions.

7. DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2007 (2006: an interim dividend of HK7.5 cents per share).

8. EARNINGS PER SHARE

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

	Six months ended	
	30.9.2007	30.9.2006
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Earnings		
Earnings for the purpose of basic and diluted earnings per share (profit for the period attributable to equity shareholders of the Company)	<u>558,296</u>	<u>143,054</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,188,477,402	686,924,683
Effect of dilutive potential ordinary shares		
– share options	26,818,558	5,843,316
– warrants	<u>693,707</u>	<u>–</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>1,215,989,667</u>	<u>692,767,999</u>

The conversion of the Company's convertibles bonds would result in an increase in the earnings per share for the period. Accordingly, the relevant diluted earnings per share have not been presented for 2007.

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of approximately HK\$3,793,000 (2006: HK\$4,046,000) and disposed of property, plant and equipment with an aggregate net book value of approximately HK\$449,000 (2006: HK\$14,000).

10. INVESTMENT PROPERTIES

During the period, the Group acquired investment properties of approximately HK\$1,105 million by way of acquisition of the entire issued share capital of Tianjin Hi-Tech Sun Investment Company Limited ("Hi-Tech Sun") and Tianjin Hi-Tech New Star Investment Company Limited ("Hi-Tech New Star"). As at the balance sheet date, the fair value of the investment properties is approximately HK\$1,796 million.

11. PREPAID LEASE PAYMENTS

During the period, the Group paid approximately HK\$961 million for the Tianjin leasehold land by way of acquisition of the entire issued share capital of Hi-Tech Sun and Hi-Tech New Star.

12. TRADE AND OTHER RECEIVABLES

The Group currently allows credit periods ranging from 30 days to 180 days to its trade customers. Longer credit periods are granted to several well established customers with long business relationship.

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

	30.9.2007 (unaudited) <i>HK\$'000</i>	31.3.2007 (audited) <i>HK\$'000</i>
0-30 days	414,448	262,028
31-90 days	430,893	445,733
91-180 days	350,650	44
Over 180 days	11,215	73,555
	<u>1,207,206</u>	<u>781,360</u>

13. TRADE AND OTHER PAYABLES

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

	30.9.2007 (unaudited) <i>HK\$'000</i>	31.3.2007 (audited) <i>HK\$'000</i>
0-90 days	28,741	22,457
91-180 days	13,333	9,174
Over 180 days	35,240	24,382
	<hr/>	<hr/>
	77,314	56,013
Dividend payable	52,694	52,594
Other payables	170,209	122,070
	<hr/>	<hr/>
	300,217	230,677
	<hr/> <hr/>	<hr/> <hr/>

14. AMOUNT DUE TO A RELATED COMPANY

The amount was owed to Matsunichi Communications (Hong Kong) Limited of which Mr. Pan Su Tong, a director of the Company, is the ultimate shareholder and a director.

15. BANK BORROWINGS

During the period, the Group obtained new bank loans and trust receipt and import loans amounting to approximately HK\$1,220,725,000 (2006: HK\$1,394,200,000) and repaid loans amounting to approximately HK\$1,072,241,000 (2006: HK\$1,461,122,000). The bank loans bear interest at prevailing market rates and are repayable within one year.

16. OBLIGATIONS UNDER FINANCE LEASES

During the period, the Group repaid obligations under finance leases amounting to approximately HK\$80,000 (2006: HK\$119,000).

17. SHARE CAPITAL

Ordinary shares of HK\$0.05 each

	Number of shares	Amount HK\$ '000
	<i>Notes</i>	
Authorised:		
At 1 April 2007 and 30 September 2007	<u>10,000,000,000</u>	<u>500,000</u>
Issued and fully paid:		
At 1 April 2007	787,824,683	39,391
Issue of new shares upon exercise of warrants (a)	23,448	1
Rights issue of shares (b)	397,017,341	19,851
Issue of new shares upon exercise of share options (c)	<u>7,610,000</u>	<u>381</u>
At 30 September 2007	<u>1,192,475,472</u>	<u>59,624</u>

- (a) During the period, 23,448 shares of HK\$0.05 each in the Company were issued at a price of HK\$6.00 per share upon exercise of the subscription rights attached to the warrants issued by way of bonus on 28 August 2007 in the proportion of three warrants for every ten rights shares subscribed for.
- (b) Rights issue of 397,017,341 shares of HK\$0.05 each in the Company at a subscription price of HK\$4.5 per rights share were allotted on 28 August 2007 to the shareholders of the Company in the proportion of one rights share for every two shares then held. All shares issued rank *pari passu* with the then existing shares in issue in all respects.
- (c) During the period 400,000 shares of HK\$0.05 each in the Company were issued at a price of HK\$1.3 per share upon exercise of share options granted on 5 February 2004. Another 1,360,000 shares and 300,000 shares of HK\$0.05 each in the Company were issued at a price of HK\$1.54 per share and HK\$1.42 per share (as adjusted to reflect the rights issue), respectively, upon exercise of share options granted on 20 April 2004. Another 5,550,000 shares of HK\$0.05 each in the Company were issued at a price of HK\$1.43 per share upon exercise of share options granted on 28 September 2005.

18. PLEDGE OF ASSETS

At the balance sheet date, certain bank facilities of the Group were secured by the bank deposits of approximately HK\$380,005,000 (31 March 2007: HK\$799,000).

19. CONTINGENT LIABILITIES

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

20. ACQUISITION OF ASSETS AND LIABILITIES THROUGH ACQUISITION OF SUBSIDIARIES

During the period, the Group had acquired investment and development properties in the PRC and its related assets and liabilities, at a consideration of RMB2,026 million (equivalent to approximately HK\$2,067 million) from Tianjin Hi-Tech Holding Group Company Limited ("Tianjin Hi-Tech"). The purchase was by way of acquisition of the entire issued share capital of Hi-Tech Sun and Hi-Tech New Star. This transaction has been reflected as a purchase of assets and liabilities.

HK\$ '000

Net assets acquired:

Investment properties	1,105,290
Prepaid lease payments	961,230
Bank balances and cash	35
Accrued charges	(35)
	2,066,520
	2,066,520

Total consideration satisfied by cash	2,066,520
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Net cash outflow arising on acquisition:

Bank balance and cash acquired	35
Cash consideration paid	(2,066,520)
	(2,066,485)
	(2,066,485)

21. RELATED PARTY TRANSACTION

During the period, the Group acquired the entire equity interest of Eagle Achieve Limited from Mr. Pan Su Tong, a director and substantial shareholder of the Company at a cash consideration of HK\$980,000.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance

During the six months ended 30 September 2007 (the "Period"), the Group recorded a turnover amounting to HK\$1,961 million (2006: HK\$1,277 million), representing a growth of approximately 54%. The growth in turnover was mainly attributable to the increase in the sales volume, particularly from the PRC and United States and the launch of digital photo frame in second half of last fiscal year.

The Group maintained a gross profit margin of 15%, which remains steady since the second half of the last fiscal year. Despite the challenges faced by the export-oriented consumer electronics industry, including the rising oil price and raw materials, plus the appreciation of Renminbi, the Group outstands itself from other industry players with a profit margin slightly higher than the industry average.

The Group recorded a net profit of HK\$558 million (2006: HK\$143 million), the increase was mainly attributable to the increase in fair value of investment properties of HK\$518 million as a result of appreciation in values of lands acquired during the Period. Excluding such changes in fair values of the Tianjin properties and the embedded derivative of the convertible bonds, the net profit was HK\$161 million, representing a steady increase of 13% from development and sale of digital consumer products.

Business Review

Diversification into property development business in the PRC

The Group has announced earlier this year its venture into property development business in the PRC to generate diversified income stream and to enhance earnings growth, in response to the strong appetite for commercial and residential properties as the Chinese economy continues its robust growth.

In March 2007, the Group announced the acquisition of 2 plots of adjacent land and the acquisition was completed in September. In September 2007, the Group announced the acquisition of another plot of adjacent land. The Group plans to develop these 3 plots of land into a high-end sizable property complex, with an aggregate planned gross floor area of over 1.5 million square metres, in which 0.6 million square metres would be for residential usage and the remaining for commercial and cultural usages. The targeted customers include multinational corporations, senior executives stationing in Tianjin and the locals desiring for high-end quality residence. The properties may be held for re-sale or rental purposes depending on the then property market sentiment. It is expected the development, rental and sale will take 5 years to complete in 3 phases. The Group believes that a good mix of residential and commercial properties helps to maximise revenue and ensure a stable, recurring rental income.

The lands are strategically located in Tianjin and have high accessibility to the city centre (10 minutes by car) and Beijing (1.5 hours by car, 28 minutes by Beijing-Tianjin-Shanghai rail to be completed in 2009).

Tianjin is believed to be the next economic powerhouse for the fast developing China after vitalising Shenzhen and Shanghai. Tianjin has recorded a year-to-year growth of gross domestic product of 14.4% for 2006. In the 17th National Congress of the Communist Party of China held in October 2007, Binhai New Area of Tianjin was listed as having the same status as Shanghai Pudong New Area as a designated economic zone. Thus, the potential of the area should not be underestimated, and we believe that it would stimulate the economic growth of Tianjin in general.

The Group is optimistic about the demand for residential and commercial properties in Tianjin to be further boosted by the rising foreign direct investment ("FDI"). With reference to the statistics from Tianjin Commission of Commerce, total utilised FDI has recorded a year-to-year increase of 27.7% for the period of January to September 2007. According to a recent report by an international property consultancy firm, Tianjin's property price has recorded a 30% growth for the first nine months of 2007. For the period of August to October 2007, the average market price of new residential property was RMB8,000 per square metre in Tianjin, representing 40% to 50% lower than the first tier-cities such as Beijing and Shanghai. In respect of commercial property, the average rent of grade A office in Tianjin is RMB120 per square metre. Currently, the supply of Tianjin grade A office is approximately 300,000 square metres, which is only 5% of Beijing and Shanghai. The Group is upbeat with the room of property development in Tianjin.

Steady Growth in Consumer Electronics Business

Our major markets include North America and the PRC, and other regions such as Russia and South America are making more significant contribution to the sales as well. During the Period, the Group continued to expand its distribution channels worldwide. Matsunichi brand of digital electronics products has already established itself firmly in the marketplace worldwide, and the brand of Matsunichi is widely recognised among customers around the world for its high quality. Matsunichi is one of the few Asian brands in the industry which enjoys strong exposures and being popular in the American and European markets.

Prospects

Looking forward, the Group is optimistic about the outlook for the second half of this financial year. The Group will focus its resources on its property business in the PRC, so as to grasp the opportunities brought by the upbeat Chinese economy. The rising living standard is driving the demand for quality residential and commercial properties and the related facilities. Our project in Tianjin was commenced in October 2007, and it is the Group's preliminary plan to develop the project into a luxurious residential-commercial complex including hotel, villa, service apartments, office buildings, etc. and to build a new community which will be the first in Tianjin. It is expected that the pre-sales will start in late 2008 or early 2009. The Group is committed to the property development business in the PRC and the Group will strive for further land acquisitions should such opportunities arise.

Material Acquisitions

On 1 March 2007, the Group announced that on 15 February 2007, the Company entered into an agreement with Tianjin Hi-Tech in respect of the acquisitions of Hi-Tech New Star and Hi-Tech Sun (the "First Acquisition"), both being wholly-owned subsidiaries of Tianjin Hi-Tech for a total consideration of RMB2,026 million. The principal asset of Hi-Tech New Star is the land use right of a parcel of land located in Tianjin with a total site area of approximately 192,076 square metres. The principal asset of Hi-Tech Sun is the land use right of a parcel of land located in Tianjin with a total site area of 209,545.3 square metres. These two plots of land have a planned gross floor area of approximately 436,730 square metres and 561,221 square metres respectively. The First Acquisition was completed in September 2007.

On 12 September 2007, the Group announced that on 7 September 2007, the Company entered into an agreement with Tianjin Hi-Tech in respect of the acquisition of the entire equity interest in Tianjin Hi-Tech New Star Property Development Company Limited ("Hi-Tech New Star Property") and the Hi-Tech New Star Property loan for a total consideration of approximately RMB1,420 million. The principal asset of Hi-Tech New Star Property is the land use right of a parcel of land located in Tianjin with an aggregate site area of approximately 275,644.2 square metres.

Financial Position and Capital Structure

As at 30 September 2007, the Group had approximately HK\$2,339 million of cash on hand compared with approximately HK\$1,751 million as at 31 March 2007. The strong cash position has paved the way to finance the working capital requirements of the Group.

The total short-term bank borrowings had increased from HK\$1,193 million as at 31 March 2007 to HK\$1,353 million as at 30 September 2007. The gearing ratio (defined as total bank borrowings on shareholders' equity) decreased from 66% as at 31 March 2007 to 34% as at 30 September 2007. The Group's liquidity position remained healthy, with a current ratio of 1.9 times as at 30 September 2007 which is as same as that as at 31 March 2007.

The Group's sales and purchase transactions are primarily denominated in either Hong Kong dollars, Renminbi and US dollars. The Group did not face significant risk from exposure to foreign exchange fluctuations.

During the Period, the Group has received overwhelming response for its fundraising activities. The aggregate net proceeds amounted to HK\$3.2 billion through the new issues of rights shares (with bonus warrants) and open offer of convertible bonds with respective amounts of HK\$1.8 billion and HK\$1.4 billion.

EMPLOYEES AND REMUNERATION POLICIES

The total staff costs incurred for the Period including directors' remuneration amounted to approximately HK\$21.0 million (2006: HK\$19.7 million). The number of staff was approximately 948 as at 30 September 2007.

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 share options to its employees.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 September 2007, the interests and short positions of the Directors and chief executives of the Company in shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which (a) 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); (b) were required, pursuant to Section 352 of the SFO, to be entered in the register maintained by the Company; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), to be notified to the Company and the Stock Exchange, was as follows:

(a) Interests in the shares

Name of director	Long position/ short position	Capacity	Number of shares held	Approximate percentage of the issued share capital of the Company (Note 3)
Mr. Pan Su Tong ("Mr. Pan")	Long position	Interest held as beneficial owner and through controlled corporation	708,171,341 (Note 1)	59.39%
Mr. Pan	Short position	Interest held through controlled corporation	79,053,000 (Note 2)	6.63%
Professor Huang Xiaojian	Long position	Beneficial owner	100,000	0.01%

(b) Interests in the warrants

Name of director	Long position/ short position	Capacity	Number of underlying shares held <i>(Note 4)</i>	Approximate percentage of the issued share capital of the Company <i>(Note 3)</i>
Mr. Pan	Long position	Interest held as beneficial owner and through controlled corporation	66,280,332	5.56%

(c) Interests in the convertible bonds

Name of director	Long position/ short position	Capacity	Number of underlying shares held <i>(Note 5)</i>	Approximate percentage of the issued share capital of the Company <i>(Note 3)</i>
Mr. Pan	Long position	Interest held as beneficial owner and through controlled corporation	220,934,447	18.53%

(d) Interests in the share options

Name of director	Capacity	Number of share options held (Note 6)	Number of underlying shares	Approximate percentage of the issued share capital of the Company (Note 3)
Professor Huang Xiaojian	Beneficial owner	324,210	324,210	0.03%

Notes:

- 49,037,000 shares were held by Mr. Pan in his personal capacity and 659,134,341 shares were held by Jade Forest Limited ("Jade Forest"). Jade Forest was 100% owned by Mr. Pan as at 30 September 2007. Accordingly, Mr. Pan was deemed to be interested in the 659,134,341 shares held by Jade Forest. Jade Forest being a holding company of the Company is also an associated corporation of the Company within the meaning of Part XV of the SFO.
- This short position in shares represents the short position in shares held by Jade Forest. Jade Forest was 100% owned by Mr. Pan as at 30 September 2007. Accordingly, Mr. Pan was deemed to be interested in the short position in shares held by Jade Forest.
- As at 30 September 2007, the issued share capital of the Company was 1,192,475,472 shares.
- Mr. Pan and Jade Forest held the warrants in the amount of HK\$2,201,400 and HK\$395,480,592 respectively as at 30 September 2007. Upon full exercise of the subscription rights attaching to the warrants at the subscription price of HK\$6 per share, 366,900 shares and 65,913,432 shares will be issued to Mr. Pan and Jade Forest respectively. Jade Forest was 100% owned by Mr. Pan as at 30 September 2007. Accordingly, Mr. Pan was deemed to be interested in the warrants held by Jade Forest.

5. Mr. Pan and Jade Forest held the convertible bonds in the amount of HK\$7,338,000 and HK\$1,318,268,682 respectively as at 30 September 2007. Upon full conversion of the convertible bonds at the conversion price of HK\$6 per share, 1,223,000 shares and 219,711,447 shares will be issued to Mr. Pan and Jade Forest respectively. Jade Forest was 100% owned by Mr. Pan as at 30 September 2007. Accordingly, Mr. Pan was deemed to be interested in the convertible bonds held by Jade Forest.
6. Details of the share options are as follows:

	Date of grant	Adjusted subscription price per share <i>HK\$</i>	Exercise period	Adjusted number of share options outstanding as 30 September 2007
Lot 1A	5 February 2004	1.20	5 February 2005 to 4 February 2014	54,035
Lot 1B	5 February 2004	1.20	5 February 2006 to 4 February 2014	162,105
Lot 2	20 April 2004	1.42	20 April 2004 to 19 April 2014	108,070

The above subscription prices and the number of outstanding options have been adjusted with effect from 22 August 2007 due to the rights issue.

Save as disclosed above, as at 30 September 2007, 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 (a) 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); (b) were required, pursuant to Section 352 of the SFO, to be entered in the register maintained by the Company; or (c) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2007, the persons or corporations, other than a Director or chief executive of the Company, who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long position in shares of the Company

Name of shareholder	Capacity	Number of shares held	Approximate percentage of the issued share capital of the Company (Note 3)
Jade Forest (Note 1)	Beneficial owner	659,134,341	55.27%
Atlantis Investment Management Ltd	Investment manager	155,310,000	13.02%
Northern Trust Fiduciary Services (Ireland) Limited (Note 2)	Investment manager	62,028,000	5.20%

Long position in underlying shares of the Company**(a) Interests in the warrants**

Name of shareholder	Capacity (Note 1)	Number of underlying shares held (Note 4)	Approximate percentage of the issued share capital of the Company (Note 3)
Jade Forest	Beneficial owner	65,913,432	5.53%

(b) Interests in the convertible bonds

Name of shareholder	Capacity (Note 1)	Number of underlying shares held (Note 5)	Approximate percentage of the issued share capital of the Company (Note 3)
Jade Forest	Beneficial owner	219,711,447	18.42%

Short position in shares of the Company

Name of shareholder	Capacity (Note 1)	Number of shares held (Note 1)	Approximate percentage of the issued share capital of the Company (Note 3)
Jade Forest	Beneficial owner	79,053,000	6.63%

Notes

1. As at 30 September 2007, Jade Forest was 100% owned by Mr. Pan.
2. According to a disclosure of interest notice filed by Northern Trust Fiduciary Services (Ireland) Limited on 17 January 2007, the 62,028,000 shares were held by Northern Trust Fiduciary Services (Ireland) Limited as trustee for Baring Hong Kong China Fund. Baring Asset Management Limited was also deemed to be interested in the 62,028,000 shares as an investment manager.
3. As at 30 September 2007, the issued share capital of the Company was 1,192,475,472 shares.

4. Jade Forest held the warrants in the amount of HK\$395,480,592 as at 30 September 2007. Upon full exercise of the subscription rights attaching to the warrants at the subscription price of HK\$6 per share, 65,913,432 shares will be issued to Jade Forest.
5. Jade Forest held the convertible bonds in the amount of HK\$1,318,268,682 as at 30 September 2007. Upon full conversion of the convertible bonds at the conversion price of HK\$6 per share, 219,711,447 shares will be issued to Jade Forest.

Save as disclosed above, there was no person or corporation, other than a Director or chief executive of the Company, who had an interest or short position in the shares or underlying shares of the Company as recorded in the register of the Company required to be kept by the Company under Section 336 of the SFO as at 30 September 2007.

SHARE OPTIONS

Pursuant to the share option scheme (the "Scheme") adopted on 27 August 2002 by a resolution passed by the Company's shareholders on the same date, the Directors may grant options as incentives to any participants as described in the Scheme for the shares in the Company within a period of ten years commencing from 27 August 2002 at the price determined by the Directors. Such price shall not be lower than the higher of (i) the closing price of the Company's shares on the Stock Exchange 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 Scheme is not permitted to exceed 10% of the issued share capital of the Company on the date of adopting the Scheme. An option may be exercised at any time within ten years from the date of grant of the relevant options.

The following tables disclose details of the Company's share option movements during the six months ended 30 September 2007:

Directors

Name of grantee	Date of Grant	Exercise period	Exercise price per share		Number of share options						Outstanding as at 30.9.2007 after adjustment (Note)
			Before adjustment	After adjustment (Note)	Outstanding as at 1.4.2007	Granted during the period	Lapsed during the period	Exercised during the period			
								Before adjustment	After adjustment		
			HK\$	HK\$							
Lot 1A	Huang Xiaojian	5 Feb 2004 to 4 Feb 2014	5 Feb 2005 to 4 Feb 2014	1.30	1.20	150,000	-	-	(100,000)	-	54,035
Lot 1B	Huang Xiaojian	5 Feb 2004 to 4 Feb 2014	5 Feb 2006 to 4 Feb 2014	1.30	1.20	150,000	-	-	-	-	162,105
Lot 2	Huang Xiaojian	20 Apr 2004 to 19 Apr 2014	20 Apr 2004 to 19 Apr 2014	1.54	1.42	100,000	-	-	-	-	108,070
						<u>400,000</u>	<u>-</u>	<u>-</u>	<u>(100,000)</u>	<u>-</u>	<u>324,210</u>

Employees

Date of Grant	Exercise period	Exercise price per share		Number of share options						Outstanding as at 30.9.2007 after adjustment (Note)	
		Before adjustment	After adjustment (Note)	Outstanding as at 1.4.2007	Granted during the period	Lapsed during the period	Exercised during the period				
							Before adjustment	After adjustment			
		HK\$	HK\$								
Lot 1A	5 Feb 2004	5 Feb 2005 to 4 Feb 2014	1.30	1.20	500,000	-	-	-	-	540,350	
Lot 1B	5 Feb 2004	5 Feb 2006 to 4 Feb 2014	1.30	1.20	550,000	-	(50,000)	-	-	540,350	
Lot 2	20 Apr 2004	20 Apr 2004 to 19 Apr 2014	1.54	1.42	3,850,000	-	-	(60,000)	-	4,095,853	
Lot 3	28 Sep 2005	28 Sep 2005 to 27 Sep 2015	1.43	1.32	7,250,000	-	(100,000)	(5,550,000)	-	1,729,120	
						<u>12,150,000</u>	<u>-</u>	<u>(150,000)</u>	<u>(5,610,000)</u>	<u>-</u>	<u>6,905,673</u>

Other participants

Date of Grant	Exercise period	Number of share options							Outstanding as at 30.9.2007 after adjustment (Note)
		Exercise price per share		Outstanding as at 1.4.2007	Granted during the period	Lapsed during the period	Exercised during the period		
		Before adjustment	After adjustment				Before adjustment	After adjustment	
		HK\$	HK\$	(Note)	(Note)				
Lot 1A	5 Feb 2004 to 4 Feb 2014	1.30	1.20	5,400,000	-	-	(300,000)	-	5,511,570
Lot 1B	5 Feb 2004 to 4 Feb 2014	1.30	1.20	6,150,000	-	-	-	-	6,646,305
Lot 2	20 Apr 2004 to 19 Apr 2014	1.54	1.42	15,150,000	-	-	(1,300,000)	(300,000)	14,667,695
				<u>26,700,000</u>	<u>-</u>	<u>-</u>	<u>(1,600,000)</u>	<u>(300,000)</u>	<u>26,825,570</u>

Note: Pursuant to the provision of the Scheme and the guidance note on Rule 17.03 of the Listing Rules issued by the Stock Exchange on 5 September 2005, adjustments have been made to the exercise prices of and the number of shares falling to be allotted and issued upon full exercise of the outstanding share options as a result of the issue of the shares for the rights issue on 22 August 2007.

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

During the six months ended 30 September 2007, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") in Appendix 14 of the Listing Rules during the six months ended 30 September 2007, except the followings:

- (1) Code provision A.2.1 of the CG Code specifies that the roles of chairman and chief executive officer should be separate and should not be performed by the same person. Currently, Mr. Pan Su Tong is serving both as the chairman and chief executive officer of the Company. The board of Directors (the "Board") considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the operations of the Board which comprises experienced and high caliber individuals and decisions of the Board are made by way of majority voting. The Board believes that this structure is conducive to strong and consistent leadership, enabling the Group to make and implement decisions promptly and efficiently. Notwithstanding the above, the Board will review the current structure from time to time. If candidate with suitable leadership, knowledge, skill and experience can be identified within or outside the Group, the Company may make necessary changes at appropriate time.
- (2) Code provision A.4.1 of the CG Code specifies that non-executive directors should be appointed for a specific term, subject to re-election. Currently, all the independent non-executive directors are not appointed for a specific term but are subject to retirement by rotation at least once every three years at the annual general meeting of the Company in accordance with the Articles of Association of the Company.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 of the Listing Rules as the guidelines for the Directors’ dealings in the securities of the Company. Upon specific enquiry by the Company, all Directors have confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 September 2007.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors namely Mr. Lai Chi Kin, Lawrence, Dr. Ng Lai Man, Carmen and Dr. Cheng Kwan Wai, Sunny.

The Audit Committee, together with the management of the Company, have reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including the review of the unaudited consolidated interim financial statements of the Group for the six months ended 30 September 2007.

By order of the Board

Matsunichi Communication Holdings Limited

Pan Su Tong

Chairman

Hong Kong, 19 November 2007