Mitsumaru East Kit (Holdings) Limited

三丸東傑（控股）有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2358)

ANNUAL REPORT 2007

Contents

Corporate Information

DIRECTORS

Executive Directors
Mr. Zhang Shuyang (Chairman, Chief Executive Officer)
Mr. Tung Chi Wai, Terrence (Chief Marketing Officer)
Mr. Leung Koon Sing

Independent Non-executive Director
Mr. Mu Xiangming

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 606
6th Floor
Regent Centre
Tower B
63 Wo Yi Hop Road
Kwai Chung
New Territories
Hong Kong

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Cheng Sik Kong, *ACCA*, *CPA*

AUTHORISED REPRESENTATIVES

Mr. Zhang Shuyang
Mr. Tung Chi Wai, Terrence

AUTHORISED REPRESENTATIVES

(to accept service of process and notices under Part XI of the Hong Kong Companies Ordinance)
Mr. Tung Chi Wai, Terrence
Mr. Cheng Sik Kong

AUDITORS

Ernst & Young
Certified Public Accountants
18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

AUDIT COMMITTEE

Mr. Mu Xiangming

NOMINATION COMMITTEE

Mr. Mu Xiangming (Chairman)
Mr. Zhang Shuyang

REMUNERATION COMMITTEE

Mr. Mu Xiangming
Mr. Tung Chi Wai, Terrence

Corporate Information

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Limited
P.O. Box 705
Butterfield House
68 Fort Street
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Rooms 1806–7, 18th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

Hang Seng Bank Limited
83 Des Voeux Road Central
Hong Kong

The Hong Kong and Shanghai Banking Corporation Limited
10th Floor
HSBC Main Building
1 Queen's Road Central
Hong Kong

DBS Bank (HK) Limited
Units 1209-18
Miramar Tower
132-134 Nathan Road
Tsim Sha Tsui
Kowloon
Hong Kong

Bank of China (HK) Limited
1 Garden Road
Hong Kong

WEBSITE

http://www.mitsumaru-ek.com

Chairman's
Statement

Zhang Shuyang
Chairman

Chairman's Statement

Dear Shareholders,

On behalf of the board of Directors (the Board), I am pleased to present the annual report and the audited financial statements of Mitsumaru East Kit (Holdings) Limited (the Company) and its subsidiaries (collectively the Group) for the financial year ended 31 December 2007.

Throughout 2007, the PRC CTV market was still operating under a challenging environment. The transition from CRT CTVs to flat panel CTVs continued in the mainstream global market, as simulated technology made way for digital technology.

According to a Display Search survey report, approximately 79.33 million units of LCD CTVs entered the global market in 2007, representing a sharp increase of approximately 73% from 2006. LCD CTVs have, undoubtedly, acquired predominant status in the CTV market, with over 80% penetration rate in Western Europe and Japan and over 70% in the United States. However, in BRIC (Brazil, Russia, India and China), it is still below 20%. LCD CTVs will likely take a lead in the market developments in developing countries for the coming few years.

Apart from the rapid changes of market needs, price competition and increases in raw material prices have constituted mounting cost pressure on production, while the adjustments of macro economic control policies such as the appreciation of Renminbi, tightening monetary policies, and introduction of the new labor contract law have also led to a profit squeeze for the Group during the year.

Affected by negative market factors, the Group recorded a loss in 2007. For the year ended 31 December 2007, turnover of the Group was approximately HK$1,065,900,000, representing a decrease of approximately 9.2% from approximately HK$1,173,800,000 compared to the previous year. Gross profit was approximately HK$58,600,000, representing a decline of approximately 40.1% as compared to approximately HK$97,800,000 of the previous year. The loss for the year attributable to ordinary equity holders of the Company was approximately HK$115,100,000, compared to the profit for the previous year of approximately HK$8,600,000. Basic loss per share attributable to ordinary equity holders of the Company was approximately HK28.8 cents, against the basic earnings per share attributable to ordinary equity holders of the Company of HK2.16 cents in the previous year. As at the balance sheet date, balance of cash and cash equivalents and pledged deposits were approximately HK$71,483,000 and HK$75,953,000 respectively.

The Board has proposed not to pay a final dividend for the year ended 31 December 2007 (2006: Nil).

Chairman's Statement

To address the challenging operating environment in the CTV market, the Group has taken a succession of measures to sustain its operational developments during the year. In 2007, the Group pursued a "No Brand" strategy and consolidated its resources platform to provide supply chain management services to the global electronics manufacturers and retailers. Concurrently, the Group continued to improve its production technology with resources allocated to research and development whilst developing key clients in order to raise production efficiency and achieve saving in operating cost. The Group also imposed active cost controls and stepped up training for its staff, with a view to improving its operational efficiency and profit capacity. The Group has also established a joint-venture company in Italy, through which its overseas retail channels can be expanded.

Looking ahead, the management expects keen competition to continue in the PRC CTV market. Yet, the Company has launched positive measures to maintain its market share in China. Although LCD CTVs have dominated the CTV market, it is generally believed that CRT CTVs are still having considerable demand in the newly emerging markets such as the PRC, India, the Middle East and South America. Hence, the Group will take measures to sustain its CRT CTV sales volume, expand the sales of LCD CTVs and actively launch new products. Simultaneously, the Group will continue upgrading the quality of its products and services, and provide top-quality products and services at reasonable prices to sustain the confidence of customers, while consolidating business relationships with them. Promotional activities to reinforce the market position of the Group and its products will be introduced. The Group will continue to frequently monitor market trends and liaise with customers to attain early awareness of their product needs. This will enable the Group to enhance customers' satisfaction and ensure their continued patronage.

The management believes that with continual hard work, the Company will be able to strengthen its competitiveness and expose itself to greater investment opportunities, thereby providing the best returns to shareholders in the long term.

On behalf of the Board, I would like to extend my gratitude to all of our customers, suppliers, business partners and shareholders for their trust and support for the Group and to the staff of the Group for their dedication and loyalty.

By Order of the Board
Mitsumaru East Kit (Holdings) Limited
Zhang Shuyang
Chairman

Hong Kong, 19 August 2008

Management Discussion and Analysis

FINANCIAL REVIEW

Overall Financial Results

This year, the Group achieved approximately HK$1,065,900,000 in turnover, representing a decrease of approximately 9.2% from that of approximately HK$1,173,800,000 in the previous year. Gross profit was approximately HK$58,600,000, representing a decrease of approximately 40.1% from that of approximately HK$97,800,000 in the previous year. Loss for the year attributable to ordinary equity holders of the Company was approximately HK$115,100,000. Last year, profit for the year attributable to ordinary equity holders of the Company was approximately HK$8,600,000. Basic loss per share attributable to ordinary equity holders of the Company was approximately HK28.8 cents. Last year, the basic earnings per share attributable to ordinary equity holders of the Company was HK2.16 cents. As at the balance sheet date, the balance of cash and cash equivalents and pledged deposits was approximately HK$147,400,000.

Turnover

For the year ended 31 December 2007, the Group's turnover was approximately HK$1,065,900,000, a decrease of approximately 9.2% compared to the previous year. The decrease was mainly attributable to overall shrinking demand in CRT CTV products, particularly in the Asian markets (including Mainland China). However, the decrease in turnover generated from CRT CTV products was partially offset by increase in sales of LCD CTV products, which rose from approximately HK$110,000,000 for last year to approximately HK$152,400,000 for the year ended 31 December 2007. For the year under review, turnover contributed by CRT and LCD CTV products represented approximately 86% (2006: 91%) and approximately 14% (2006: 9%) of the Group's turnover respectively.

Geographically, Mainland China and Asian countries are the major markets of the Group. The Group's turnover generated from Asian markets (including Mainland China) decreased from approximately HK$808,400,000 for the year ended 31 December 2006 to approximately HK$666,900,000 for the year ended 31 December 2007, representing a decrease of approximately 17.5%. However, higher turnover was recorded from the South America market, which rose from approximately HK$121,900,000 for the previous year to approximately HK$160,600,000 for the year ended 31 December 2007. The increase was mainly attributable to a rise in CRT CTV products sales to a major customer in Argentina, who secured a larger local market share in CRT CTV products during the year.

Gross Profit Margin

Gross profit margin decreased from approximately 8.3% in 2006 to approximately 5.5% in 2007, owing to a drop in the selling prices of CRT CTV products, combined with increases in the costs of some raw materials and components, increases in wages and overheads as well as logistics and transportation costs.

Expenses

The Group's selling and distribution costs declined from approximately HK$17,800,000 in 2006 to approximately HK$15,900,000 during the year. The reduction of its selling and distribution costs was primarily attributable to improved efficiency in delivery of goods, thus incurring lesser flight charges.

During 2007, other operating expenses increased from approximately HK$8,500,000 in 2006 to approximately HK$11,700,000, primarily because of the increase in the impairment of other receivables.

Management Discussion and Analysis

The Group is stepping up cost controls in order to improve its cost competitiveness. Since most of its expenses are of a fixed nature, it is believed that its cost efficiency will be improved, once higher sales volume is generated.

The increase in its finance costs was mainly due to increase in interest expenses. The increase in interest expenses was mainly caused by a mortgage loan of HK$17,400,000 which was taken at the end of 2006.

Financial Condition and Liquidity

The Group's operations are mainly financed by internally generated cash flows and banking facilities provided by banks. For the year ended 31 December 2007, the Group generated approximately HK$2,000,000 (2006: HK$18,600,000) of cash from its operations. As at 31 December 2007, the Group had cash and cash equivalents of approximately HK$71,500,000, compared to approximately HK$81,000,000 as at 31 December 2006.

As at 31 December 2007, shareholders' equity was approximately HK$99,800,000 (2006: HK$211,100,000). Current assets of the Group amounted to approximately HK$563,500,000 (2006: HK$738,000,000). The current ratio was approximately 0.91 (2006: 1.04).

As at 31 December 2007, the Group's bank and other borrowings amounted to approximately HK$148,200,000 (2006: HK$143,800,000) and the gearing ratio, representing the ratio of total borrowings to total assets, increased to approximately 20% in 2007 from approximately 15.2% in 2006. Approximately HK$9,400,000 (less than 10% of the borrowing) borne fixed interest rate and the effective interest rate was 8.7%. Those bank borrowings were denominated in Renminbi (approximately RMB8,800,000).

Trade and notes receivables decreased from approximately HK$386,500,000 in 2006 to approximately HK$255,400,000 in 2007. During the year, approximately HK$60,800,000 was provided for impairment losses.

Capital Expenditure

The Group's total capital expenditures on property, plant and equipment and investment properties during the year amounted to approximately HK$12,100,000 (2006: HK$52,600,000).

Pledge of Assets

At 31 December 2007, certain assets of the Group with an aggregate carrying value of approximately HK$90,100,000 (2006: HK$38,400,000) were pledged to secure banking facilities of the Group. Details of the pledge of the Group's assets are set out as follows:

(a) pledge over the Group's plant and machinery, which had an aggregate carrying value at the balance sheet date of approximately HK$6,900,000 (2006: HK$8,300,000);

(b) mortgage over the Group's buildings situated in Hong Kong, which had an aggregate carrying value at the balance sheet date of approximately HK$27,500,000 (2006: HK$22,400,000);

(c) pledge over the Group's buildings situated in Mainland China, which has an aggregate carrying value at the balance sheet date of approximately HK$53,800,000 (2006: Nil); and

(d) mortgage over the Group's investment properties situated in Hong Kong, which had an aggregate carrying value at the balance sheet date of approximately HK$1,900,000 (2006: HK$7,700,000).

Management Discussion and Analysis

Foreign Exchange Risk

The Group's monetary assets, loans and transactions are principally denominated in Hong Kong Dollars ("HK$"), Renminbi ("RMB") and United States Dollars ("US$"). The Group is exposed to foreign exchange risk arising from the exposure of HK$ against RMB and US$. Considering that the HK$ is pegged to the US$, the Group believes its exposure to exchange risk will be confined to RMB and HK$. At present, the Group does not intend to hedge its exposure to foreign exchange fluctuations, but will constantly monitor the economic situation and its foreign exchange risk position, and will consider appropriate hedging measures in future as may be necessary and feasible.

Capital Commitments and Contingent Liabilities

During the year, the Group's capital commitments amounted to approximately HK$810,000 (2006: HK$3,200,000). As at 31 December 2007, the Group had no material contingent liabilities.

Employees Benefit and Expenses

As at 31 December 2007, the total number of employees in the Group was 995. The total amount of employee wages incurred during the year was approximately HK$58,900,000 (2006: HK$57,500,000). Employees' remuneration is determined by work responsibilities, job performance and professional experience. The Group also provides staff training from time to time to upgrade the knowledge, skills and overall caliber of its employees.

BUSINESS REVIEW

In 2007, the Group was engaged in selling primarily CRT CTVs and LCD CTVs, in three categories, namely, completely knocked down ("CKD"), semi-knocked down ("SKD") and completely built unit ("CBU"). The Group's CRT CTV products were mainly sold to newly emerging markets such as India, Russia, the Middle East, Asia and South America. Its LCD CTV products were primarily sold in regions including Europe, North America, Asia and Australia.

In terms of sales, the turnover of CRT CTV products recorded a decline during the year, while the turnover of LCD CTV products increased. Decline in sales of CRT CTV products was mainly due to shrinking demand in CRT CTV products, particularly in the Asian countries. During the year, the Group focused on innovating new LCD CTV product series, the increase in sales of LCD CTV products partially compensated the decline in the sales of CRT CTV products.

In terms of research and development, CRT CTV product technology has come of age. In addition to developing standard chassis, the Group also produces tailor-made chassis for customers. In order to lower product overheads, the Research and Development ("R&D") Division has been actively searching for more component suppliers. The wide range of LCD chassis solutions and their faster supersession led to the extensive variety of orders in small quantities. It is not possible to achieve production efficiency. During the year, the Group reduced the number of its product categories, while placing key emphasis on developing the MTK digital product series and developing key customers. Product orders were more focused with signs of rising. In addition, cabinet design is important to LCD CTV products. Greater emphasis on industrial design has been gradually incorporated into the Group's R&D process. The Group has developed its own product design collection.

During the year, the Group made an investment in Italy, in which the Group holds a 19% equity interest in the joint venture company for expanding oversea sales channels. The joint venture company commenced its business in the second quarter of 2008 with its target market being European countries.

Management Discussion and Analysis

OUTLOOK

Although CRT CTVs are now into a stage of dwindling production, outlook for 2008 is promising. Effects of the Olympic Games and the practice of "to popularize home appliances in villages" have led to the sales forecast of 24 million sets to be sold in China during 2008 (Source: All View Consulting Limited). With the 2008 Beijing Olympics, the popularity of flat panel CTVs will peak in China. The Olympics year will generate a positive momentum for China's CTV market, with an overall growth of 7% anticipated.

In 2008, the Group's business strategy is to maintain the sales volume of CRT CTV products, expand the sales of LCD CTV products and actively promote new products.

Where sales are concerned, efforts will be taken to raise the business level and product orders will be stringently executed. For CRT CTV products, efforts will be made to promote competitive chassis solutions. For LCD CTV products, efforts will be made to develop stable customers and their product orders via three major exhibition fairs, namely, the International Funk Ausstellung (IFA) at Berlin, Germany, International Consumer Electronics Show (CES) in the USA and the Hong Kong Electronics Fair. Emphasis will also be placed on the promotion and sales of new products.

With regard to research and development, priority will be given to R&D costs. Apart from completing the designated solutions in response to customers' requirements, it is also important to lower chassis costs and standardize electronic circuit design. While satisfying customer needs and ensuring product reliability, positive indications experienced by industry peers will be examined, and with the support of the Supply Chain Management Division, efforts will be made to reduce chassis costs to a minimum level. In terms of cabinet design, trial exploration will be undertaken with the use of new material, new techniques and new methods to lower R&D costs as well as to pursue production quality and speed.

In the area of supply chain management, the professional skills of purchasing staff will be raised to achieve cost reduction. Inventory control and efficiency of capital utilization will be stepped up while customer services will be enhanced.

DIVIDENDS

No dividend has been declared or proposed by the Directors in respect of the year ended 31 December 2007 (2006: Nil).

Directors and Senior Management Profiles

EXECUTIVE DIRECTORS

Mr. Zhang Shuyang, aged 54, the founder of the Group, is an Executive Director and the Chairman of the Group as well as the Chief Executive Officer and the Chairman of the Management Committee of the Group. Mr. Zhang graduated from East China Normal University, majoring in Computer Science. Apart from his experience and technical knowledge in the television industry, Mr. Zhang has over 20 years of experience in management gained from various local and overseas electronics trading companies in Hong Kong and the PRC before founding East Kit Electronic (China) Company Limited in 1993. He is currently responsible for overall strategic planning of the Group and overseeing the daily operation and management of the Supply Chain Management Division and the R&D Division of the Group. Mr. Zhang was appointed as the Director on 13 February 2004.

Mr. Tung Chi Wai, Terrence, aged 41, the co-founder of the Group, is an Executive Director and the Chief Marketing Officer of the Group as well as a member of the Management Committee of the Group. Mr. Tung graduated from University of Manitoba, Canada with a Bachelor's Degree in Science (Electrical Engineering). Before co-founding Mitsumaru (Holdings) Limited with Mr. Zhang in 1994, he has over 10 years of experience in sales and management in the electronics and television industries. He is currently responsible for overseeing the daily operation and management of the Sales and Marketing Division, the Operating Division and Mitsumaru (H.K.) Limited. Mr. Tung was appointed as the Director on 13 February 2004.

Mr. Leung Koon Sing, aged 49, is an Executive Director as well as a member of the Management Committee of the Group. Mr. Leung graduated from the University of Hong Kong with a Bachelor of Arts in 1982. Mr. Leung has over 20 years of experience as a commercial banker, an investment banker as well as an operator. He is currently responsible for the overall management of the Group. Mr. Leung joined the Group and was appointed as the Director on 1 August 2008.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Mu Xiangming, aged 53, was appointed as an Independent Non-executive Director on 15 June 2007. Mr. Mu graduated from Fudan University with a Bachelor's Degree of Laws, and further with a Degree in L.L.M. of University of Oregon Law School. Mr. Mu had been a member of Shanghai Municipal Government Foreign Economic Trade Committee from 1983 to 1986 and a practicing lawyer in a US solicitors firm for nearly 4 years. He has been a Partner and Director of Shanghai Ming and Yuan Law Firm since 1997, with experience in commercial and criminal matters. Mr. Mu has held the office of Independent Non-executive Director of China HealthCare Holdings Limited since September 2004.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Cheng Sik Kong, aged 42, is the Company Secretary and Qualified Accountant of the Company. Mr. Cheng is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Cheng has over 10 years of experience in accounting, auditing and financial control. He is currently responsible for the financial planning of the Group. Mr. Cheng joined the Group in May 2006 and was appointed as the Company Secretary and Qualified Accountant on 20 February 2008.

Directors and Senior Management Profiles

SENIOR MANAGEMENT

Mr. Han Shiquan, aged 59, is an assistant to the Chairman and the General Manager of the R&D Division of the Group as well as a member of the Management Committee of the Group. Mr. Han graduated from the Faculty of Electronics Engineering of School of Electronic Instrument of East China Normal University, majoring in Radio Technology. Mr. Han was endorsed as a Senior Engineer by Shanghai Instrument and Telecommunications Industrial Bureau. He has extensive experience in the electronics and electrical appliance industries and is currently responsible for the daily operation and management of the R&D Division of the Group and assisting the Chairman in overseeing the daily operation and management of the Group. He is the President and General Manager of East Kit Electronic (Shanghai) Company Limited as well as a Director of Cyber Opto-Electronical Technology Co., Ltd.. Mr. Han joined the Group in June 1995.

Mr. Li Zhongyi, aged 54, is the General Manager of the Supply Chain Management Division of the Group as well as a member of the Management Committee of the Group. Mr. Li graduated from Beijing Economy and Management Distance Learning University and once worked in Chunlan Group. He has extensive experience in the household electrical appliance industry, and is currently responsible for the daily operation and management of the Supply Chain Management Division of the Group. Mr. Li joined the Group in December 2006.

Mr. Wang Cheng, aged 40, is the General Manager of the LCD Chassis Division of the Group. Mr. Wang graduated from the Faculty of Electronic Engineering of Changchun School of Optical Precision Engineering, majoring in Applied Electronics Technology. Mr. Wang has extensive technical knowledge and experience in the household electrical appliance industry. He has ever worked for a state-owned engineering manufacturer for almost 6 years. He is currently responsible for the daily operation and management of the LCD Chassis Division of the Group. He is a Director of East Kit Electronic (Shanghai) Company Limited. Mr. Wang joined the Group in July 1996.

Ms. Zhuang Zhongyuan, aged 32, is the General Manager of the Sales and Marketing Division of the Group as well as a member of the Management Committee of the Group. Ms. Zhuang graduated from Shanghai University, majoring in International Trading. She is currently responsible for the daily operation and management of the Sales and Marketing Division of the Group. Ms. Zhuang joined the Group in October 1998.

Mr. He Liangsheng, aged 51, is the General Manager of the Operating Division and Supervisor of Directors' Office of the Group as well as a member of the Management Committee of the Group. Mr. He graduated from Shanghai Education Institute, majoring in Educational Management. In November 2006, Mr. He further obtained the certificate of Senior Professional Manager qualified by Ministry of Labour and Social Security of the People's Republic of China. He has extensive experience in the field of management, and is currently responsible for the daily operation and management of the Operating Division of the Group and Mitsumaru Electronic (Wuhu) Company Limited. He is the President and General Manager of Mitsumaru Electronic (Wuhu) Company Limited as well as the President of East Kit Electronic (China) Company Limited. Mr. He joined the Group in September 1994.

Mr. Zhang Beizhan, aged 39, is the Standing Associate General Manager of the LCD Chassis Division of the Group as well as a member of the Management Committee of the Group. Mr. Zhang graduated from Xi'an Electronics Technology University, majoring in Information Engineering. He has extensive technical knowledge and experience in television manufacturing industry. He is currently responsible for the daily operation and management of the LCD Chassis Division of the Group. He is a Director of East Kit Electronic (Shanghai) Company Limited. Mr. Zhang joined the Group in July 1996.

Directors and Senior Management Profiles

Mr. Zhao Yuan, aged 45, is the Associate General Manager of the Sales and Marketing Division of the Group as well as a member of the Management Committee of the Group. He graduated from Shanghai University of Technology with a Bachelor's Degree, majoring in Physics. He is currently responsible for sales and marketing of the CRT and LCD CTV products of the Group. Mr. Zhao joined the Group in June 1993.

Mr. Kazunori Watanabe, aged 55, is a member of the Management Committee of the Group. Mr. Watanabe graduated from the College of Commerce of Nihon University with a Bachelor's Degree in Commerce. Mr. Watanabe has over 25 years of experience in import and export trading and sales development in the United States, European and Asian markets gained from sizeable enterprises. Mr. Watanabe joined the Group in November 2003, and he was appointed as an Executive Director on 19 June 2004 and resigned from his position on 31 August 2007. Currently, Mr. Watanabe remains as the Managing Director of Mitsumaru Japan Limited and responsible for sales and marketing in the Japanese market and overseeing the daily operation and management of Mitsumaru Japan Limited.

Mr. Werner Mirsberger, aged 55, is a member of the Management Committee of the Group. Mr. Mirsberger graduated from IHK-Industrie and Handelskammer Nürnberg with a Master's Degree in Electronic Engineering. He has gained extensive experience in the electronic-related industries from various multinational organizations worldwide. Mr. Mirsberger joined the Group in September 2003. He is currently the Managing Director of Kaern GmbH and responsible for sales and marketing in the German market and the daily operation and management of Kaern GmbH.

Former Directors and Senior Management Profiles

INDEPENDENT EXECUTIVE DIRECTORS

Mr. Ts'o Shun, Roy, aged 57, was appointed as an Independent Non-executive Director on 19 June 2004 and resigned from his position on 15 June 2007. Mr. Ts'o graduated from Cornell College, Mr. Vernon, Iowa, the United States with a Bachelor's Degree in Arts. Mr. Ts'o further obtained a Master's Degree in Business Administration from University of Wisconsin, Madison, Wisconsin, the United States. Mr. Ts'o has extensive experience in the financial market and securities industry in Hong Kong.

Mr. Ede Hao Xi, Ronald, aged 49, was appointed as an Independent Non-executive Director on 19 June 2004 and resigned from his position on 12 June 2008. Mr. Ede graduated from University of Hawaii in 1984 with a Bachelor's Degree in Business Administration, majoring in Accountancy, and obtained a Master's Degree in Business Administration from University of Washington in 1988. Mr. Ede is a licensed certified public accountant in the United States. Mr. Ede has extensive experience serving in the capacity as the Financial Controller or Managing Director in United States based multinational hi-tech manufacturing companies. Mr. Ede also worked in various management positions for companies ranging from international bank, to international accounting and consultancy firms.

Mr. Li Yueh Chen, aged 59, was appointed as an Independent Non-executive Director on 19 June 2004 and resigned from his position on 12 June 2008. Mr. Li graduated from Chiao Tung University, Hsinchu and Taiwan University, Taipei, Taiwan with a Bachelor's Degree in Electro-physics and a Master's Degree in Electrical Engineering, respectively. Mr. Li has extensive experience gained from various multinational organizations specializing in advanced technology, venture investment and asset management.

Mr. Selwyn Mar, aged 72, was appointed as an Independent Non-executive Director on 12 June 2008 and resigned from his position on 7 July 2008. He graduated from the London School of Economics, University of London. He is a fellow member of the Institute of Chartered Accountants of United Kingdom and the Hong Kong Institute of Certified Public Accountants. He has been actively involved in professional, commercial and industrial undertakings over the past 40 years.

Mr. Lam Chun, Daniel, aged 62, was appointed as an Independent Non-executive Director on 23 June 2008 and reisgned from his position on 12 July 2008. He is an Authorized Person under the Buildings Ordinance and a Registered Professional Surveyor. He is a fellow member of the Royal Institution of Chartered Surveyors and the Chartered Institute of Arbitrators, a fellow member and the past President (1986–1987) of the Hong Kong Institute of Surveyors, and a fellow member and the past Chairman (1997–2000) of the Hong Kong Institute of Arbitrators. Mr. Lam has over 30 years of experience in the surveying profession.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Pun Wai, aged 36, was appointed as the Company Secretary and the Qualified Accountant of the Company on 22 June 2004 and resigned from his position on 20 February 2008. Mr. Pun graduated from Hong Kong Baptist University, majoring in Business Administration (Accountancy). Mr. Pun is an associate member of the Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants. Mr. Pun has over 10 years of experience in the audit and accounting profession.

Former Directors and Senior Management Profiles

SENIOR MANAGEMENT

Mr. Huang Pengzhan, aged 38, was the General Manager of the R&D Division of the Group as well as a member of the Management Committee of the Group and resigned from his position on 31 March 2008. Mr. Huang graduated from the Faculty of Electrical Engineering of Tong Ji University with a Bachelor's Degree in Engineering. He further obtained a Master's Degree in Business Administration from Jiao Tong University. He has over 10 years of experience in the television industry.

Mr. Fei Zhaodong, aged 50, was the Assistant to the General Manager of the Supply Chain Management Division of the Group and resigned from his position on 21 February 2008. Mr. Fei graduated from Jiangsu Radio and TV University, majoring in Management Engineering. Mr. Fei has extensive experience in the household electrical appliance industry.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICE

The Company is committed to maintaining high standards of corporate governance practice for enhancing accountability and transparency of the Company to the investors and the shareholders. The Company noted that the Stock Exchange of Hong Kong Limited (the "Stock Exchange") has issued the "Code of Corporate Governance Practices" (the "Corporate Governance Code") as contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), which is effective for accounting periods commencing on or after 1 January 2005. Pursuant to the Listing Rules, listed companies are required to include in their annual report a report on their corporate governance practices during the accounting period, including compliance with the Corporate Governance Code.

THE BOARD OF DIRECTORS

Composition of the Board

During the financial year ended 31 December 2007 and up to the date of this report, compositions of the Board were:

	Appointment Date	Resignation Date
Executive Directors:		
Mr. Zhang Shuyang	13 February 2004	—
Mr. Tung Chi Wai, Terrence	13 February 2004	—
Mr. Leung Koon Sing	1 August 2008	—
Mr. Kazunori Watanabe	19 June 2004	31 August 2007
Independent Non-executive Directors:		
Mr. Mu Xiangming	15 June 2007	—
Mr. Ts'o Shun, Roy	19 June 2004	15 June 2007
Mr. Ede Hao Xi, Ronald	19 June 2004	12 June 2008
Mr. Li Yueh Chen	19 June 2004	12 June 2008
Mr. Selwyn Mar	12 June 2008	7 July 2008
Mr. Lam Chun, Daniel	23 June 2008	12 July 2008

The Board currently comprises three Executive Directors and one Independent Non-executive Director. The number of the Independent Non-executive Directors in the Board falls below the minimum number as required by Rule 3.10 of the Listing Rules. The Company is now actively identifying suitable candidates for appointment as Independent Non-executive Directors in order to satisfy the minimum number as required by the Listing Rules.

Chairman and Chief Executive Officer

The Chairman and Chief Executive Officer of the Company is Mr. Zhang Shuyang, who, in his capacity of Chairman of the Board, provides leadership to the Board, and ensures that the Board is properly briefed on issues arising at board meetings and receives timely, accurate and complete information for the Board's consideration.

Code provision A2.1 of the Corporate Governance Code requires the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. The Company deviated from the provision, as the Chairman and the Chief Executive Officer of the Company are performed by the same individual, Mr. Zhang Shuyang.

Corporate Governance Report

Independent Non-executive Directors

As at the date of this report, the Company has only one Independent Non-executive Director and the Audit Committee has only one member, which fall below the minimum number as required under Rules 3.10(1) and 3.21 of the Listing Rules respectively. Further, the existing Independent Non-executive Director, Mr. Mu Xiangming, has no appropriate accounting expertise as required under Rule 3.21 of the Listing Rules. The Company is actively identifying suitable candidates for appointment as an Independent Non-executive Director so as to meet requirements under Rule 3.10(1) of the Listing Rules within three months from 7 July 2008 (the date on which the number of Independent Non-executive Directors and members of the Audit Committee falls below the minimum number and appropriate accounting expertise requirement under Rule 3.10(1) and 3.21 of the Listing Rules) as required under Rule 3.11 and 3.23 of the Listing Rules.

The Company has received confirmations from each Independent Non-executive Director of his independence under the Listing Rules, and the Board considers each of them to be independent. None of the Directors is related to one another.

The Independent Non-executive Director, Mr. Mu Xiangming, has entered into a service contract with the Company for a term of two years, subject to re-election by shareholders at the annual general meeting of the Company at least once every three years by rotation. No Director has a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

The Role of the Board

The Board is primarily responsible for the leadership and control of the Group and is collectively responsible for promoting the success of the Group by directing and supervising the affairs of the Group.

The Board meets regularly, and all members of the Board are given complete, timely and reliable information in relation to the affairs of the Group, and receive the support from and access to the Company Secretary in respect of all meetings of the Board. Each is afforded access, on his request, to senior management of the Group and to independent legal advice. All Directors receive briefings and professional development training as necessary to ensure a proper understanding of the business of the Group and their responsibilities under statute and at common law.

Corporate Governance Report

During the year and up to the date of this report, 16 Board meetings were held and the individual attendance of each Director is set out below:

Category of Director	Name of Directors	Number of Board Meetings attended	Attendance Rate
Executive Directors	Mr. Zhang Shuyang	15/16	93.8%
	Mr. Tung Chi Wai, Terrence	15/16	93.8%
	Mr. Leung Koon Sing (appointed on 1 August 2008)	2/2	100%
	Mr. Kazunori Watanabe (resigned on 31 August 2007)	3/3	100%
Independent Non-executive Directors	Mr. Mu Xiangming (appointed on 15 June 2007)	13/14	92.9%
	Mr. Ts'o Shun, Roy (resigned on 15 June 2007)	2/2	100%
	Mr. Ede Hao Xi, Ronald (resigned on 12 June 2008)	7/7	100%
	Mr. Li Yueh Chen (resigned on 12 June 2008)	7/7	100%
	Mr. Selwyn Mar (appointed on 12 June 2008 and resigned on 7 July 2008)	2/2	100%
	Mr. Lam Chun, Daniel (appointed on 23 June 2008 and resigned on 12 July 2008)	1/1	100%
Average attendance rate			**98.1%**

Corporate Governance Report

COMMITTEES OF THE BOARD

Audit Committee

The Audit Committee was established on 22 June 2004, and on 25 April 2007 the Board adopted specific written terms of reference setting out the authority and duties of the Audit Committee, now published on the Company's website, www.mitsumaru-ek.com. The role of the Audit Committee is to make recommendations to the Board on the appointment and removal of auditors, review the Group's financial statements, financial controls, internal controls and risk management system.

During the year and up to the date of this report, the composition of the Audit Committee has been:

Period		
From	**To**	**Audit Committee Members**
1 January 2007	14 June 2007	Mr. Ede Hao Xi, Ronald (Chairman) Mr. Ts'o Shun, Roy Mr. Li Yueh Chen
15 June 2007	11 June 2008	Mr. Ede Hao Xi, Ronald (Chairman) Mr. Mu Xiangming Mr. Li Yueh Chen
12 June 2008	22 June 2008	Mr. Selwyn Mar (Chairman) Mr. Mu Xiangming
23 June 2008	7 July 2008	Mr. Selwyn Mar (Chairman) Mr. Mu Xiangming Mr. Lam Chun, Daniel
8 July 2008	12 July 2008	Mr, Mu Xiangming Mr. Lam Chun, Daniel
13 July 2008	—	Mr. Mu Xiangming

During 2007, the Audit Committee reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2006 and the interim report for the six months ended 30 June 2007.

After resignation of Mr. Selwyn Mar and Mr. Lam Chun, Daniel as Independent Non-executive Directors, the Company has only one Independent Non-executive Director, following short of the required number to make of an Audit Committee as required by the Rule 3.21 of the Listing Rules. Thus, there was no Audit Committee to review the financial results for the year ended 31 December 2007. However, the single Independent Non-executive Director, Mr. Mu Xiangming, met with the auditors to review the financial results for the year ended 31 December 2007. The Company is actively identifying suitable candidates as Independent Non-executive Directors who will also be appointed as Audit Committee members.

Corporate Governance Report

During the year and up to the date of this report, the Audit Committee held 4 meetings, and the table below sets out the attendance record of each member:

Category of Director	Name of Directors	Number of Audit Committee Meetings attended	Attendance Rate
Independent Non-executive Directors	Mr. Mu Xiangming (appointed on 15 June 2007)	2/3	66.7%
	Mr. Ts'o Shun, Roy (resigned on 15 June 2007)	1/1	100%
	Mr. Ede Hao Xi, Ronald (resigned on 12 June 2008)	3/3	100%
	Mr. Li Yueh Chen (resigned on 12 June 2008)	3/3	100%
	Mr. Selwyn Mar (appointed on 12 June 2008 and resigned on 7 July 2008)	1/1	100%
	Mr. Lam Chun, Daniel (appointed on 23 June 2008 and resigned on 12 July 2008)	1/1	100%
Average attendance rate			**94.5%**

The Remuneration Committee

The Remuneration Committee was established on 12 December 2005, and on 25 April 2007 the Board adopted specific written terms of reference setting out the authority and duties of the Remuneration Committee, now published on the Company's website, www.mitsumaru-ek.com. The role of the Remuneration Committee is to make recommendations to the Board on the Group's policy and structure for all remuneration of Directors and senior management, and on the establishment of a formal and transparent procedure for developing policy on such remuneration. The Remuneration Committee also reviews and approves the compensation arrangements relating to dismissal or removal of Directors to ensure that such arrangements are in accordance with the relevant contractual terms or are otherwise reasonable and appropriate.

Corporate Governance Report

During the year and up to the date of this report, the composition of the Remuneration Committee has been:

Period		
From	**To**	**Remuneration Committee Members**
1 January 2007	14 June 2007	Mr. Ts'o Shun, Roy (Chairman) Mr. Li Yueh Chen Mr. Ede Hao Xi, Ronald Mr. Tung Chi Wai, Terrence
15 June 2007	11 June 2008	Mr. Mu Xiangming (Chairman) Mr. Li Yueh Chen Mr. Ede Hao Xi, Ronald Mr. Tung Chi Wai, Terrence
12 June 2008	22 June 2008	Mr. Selwyn Mar (Chairman) Mr. Mu Xiangming Mr. Tung Chi Wai, Terrence
23 June 2008	7 July 2008	Mr. Selwyn Mar (Chairman) Mr. Mu Xiangming Mr. Lam Chun, Daniel Mr. Tung Chi Wai, Terrence
8 July 2008	12 July 2008	Mr. Mu Xiangming Mr. Lam Chun, Daniel Mr. Tung Chi Wai, Terrence
13 July 2008	—	Mr. Mu Xiangming Mr. Tung Chi Wai, Terrence

As at the date of this report, the Remuneration Committee comprises of two members, they are Mr. Mu Xiangming (Independent Non-executive Director) and Mr. Tung Chi Wai, Terrence (Executive Director). The Company is now actively identifying suitable candidates for appointment as Independent Non-executive Directors and Remuneration Committee members in order to ensure the Remuneration Committee comprising a majority of Independent Non-executive Directors.

Corporate Governance Report

During the year and up to the date of this report, the Remuneration Committee held 1 meeting during which the Committee reviewed the Group's existing emolument policy and recommended to the Board of the Directors' remuneration in accordance with the provisions of the corresponding service contract. No Director was involved in deciding his own remuneration at the meeting of the Remuneration Committee. The table below sets out the attendance record of each member:

Category of Director	Name of Directors	Number of Remuneration Committee Meetings attended	Attendance Rate
Independent Non-executive Directors	Mr. Mu Xiangming (appointed on 15 June 2007)	0/0	–
	Mr. Ts'o Shun, Roy (resigned on 15 June 2007)	1/1	100%
	Mr. Ede Hao Xi, Ronald (resigned on 12 June 2008)	1/1	100%
	Mr. Li Yueh Chen (resigned on 12 June 2008)	1/1	100%
	Mr. Selwyn Mar (appointed on 12 June 2008 and resigned on 7 July 2008)	0/0	–
	Mr. Lam Chun, Daniel (appointed on 23 June 2008 and resigned on 12 July 2008)	0/0	–
Executive Director	Mr. Tung Chi Wai, Terrence	1/1	100%
Average attendance rate			**100%**

Nomination Committee

The Nomination Committee was established on 12 December 2005, and on 25 April 2007 the Board adopted specific written terms of reference setting out the authority and duties of the Nomination Committee, now published on the Company's website, www.mitsumaru-ek.com. The role of the Nomination Committee is to review the composition of the Board, select, identify and recommend to the Board suitable candidates to be Directors, and assess the independence of Independent Non-executive Directors.

Corporate Governance Report

During the year and up to the date of this report, the composition of the Nomination Committee has been:

Period From	To	Nomination Committee Members
1 January 2007	14 June 2007	Mr. Li Yueh Chen (Chairman) Mr. Ts'o Shun, Roy Mr. Ede Hao Xi, Ronald Mr. Zhang Shuyang
15 June 2007	11 June 2008	Mr. Li Yueh Chen (Chairman) Mr. Mu Xiangming Mr. Ede Hao Xi, Ronald Mr. Zhang Shuyang
12 June 2008	22 June 2008	Mr. Mu Xiangming (Chairman) Mr. Selwyn Mar Mr. Zhang Shuyang
23 June 2008	7 July 2008	Mr. Mu Xiangming (Chairman) Mr. Selwyn Mar Mr. Lam Chun, Daniel Mr. Zhang Shuyang
8 July 2008	12 July 2008	Mr. Mu Xiangming (Chairman) Mr. Lam Chun, Daniel Mr. Zhang Shuyang
13 July 2008	—	Mr. Mu Xiangming (Chairman) Mr. Zhang Shuyang

As at the date of this report, the Nomination Committee comprises of two members, and is chaired by Mr. Mu Xiangming (Independent Non-executive Director). The other member of the Nomination Committee is Mr. Zhang Shuyang (Executive Director). The Company is now actively identifying suitable candidates to be appointed as Independent Non-executive Directors and Remuneration Committee members in order to ensure the Remuneration Committee comprising a majority of Independent Non-executive Directors.

Corporate Governance Report

During the year and up to the date of this report, the Nomination Committee held 1 meeting during which the Nomination Committee reviewed the qualifications and the performance of the current Directors and the composition of the Board, assessed the independence of Independent Non-executive Directors and recommended to the Board on relevant matters relating to the appointment and re-appointment of Directors. The table below sets out the attendance record of each member:

Category of Director	Name of Directors	Number of Nomination Committee Meetings attended	Attendance Rate
Independent Non-executive Directors	Mr. Mu Xiangming (appointed on 15 June 2007)	0/0	—
	Mr. Ts'o Shun, Roy (resigned on 15 June 2007)	1/1	100%
	Mr. Ede Hao Xi, Ronald (resigned on 12 June 2008)	1/1	100%
	Mr. Li Yueh Chen (resigned on 12 June 2008)	1/1	100%
	Mr. Selwyn Mar (appointed on 12 June 2008 and resigned on 7 July 2008)	0/0	—
	Mr. Lam Chun, Daniel (appointed on 23 June 2008 and resigned on 12 July 2008)	0/0	—
Executive Director	Mr. Zhang Shuyang	1/1	100%
Average attendance rate			**100%**

INTERNAL CONTROL REVIEW

The Board is committed to ensuring that the Group maintains sound and effective internal controls to safeguard shareholders' investment and the Group's assets. As and when Independent Non-executive Directors have been properly identified and appointed, the functions of the Audit Committee will be activated to include adequate internal control being put in place.

AUDITORS' REMUNERATION

The auditors of the Group are Ernst & Young, and in 2007, the fees to Ernst & Young in respect their audit services were HK$1,900,000. Ernst & Young did not provide any non-audit services to the Group.

Corporate Governance Report

DIRECTORS' SECURITIES TRANSACTIONS

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules on terms no less exacting than that required by the Listing Rules on 17 September 2007. All members of the Board have confirmed, following specific enquiry by the Company, that they have complied with the required standards of the Model Code throughout the year ended 31 December 2007.

FINANCIAL REPORTING

Pursuant to Rule 13.46(2)(a) and Rule 13.49(1) of the Listing Rules, the Company is required to despatch its annual report and publish its annual financial results no later than four months after the date upon which its financial year ends, that is on or before 30 April 2008. However, more time was needed for the Company to provide information required by the auditors and for the auditors to complete their work. The Company was unable to either despatch its annual report or publish its annual financial results on or before 30 April 2008 as required by the Listing Rules.

The audited financial statements set out in this annual report have been prepared on a going concern basis. Save as disclosed in note 2.1 to the financial statements, the Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement by the auditors of the Company regarding their reporting responsibilities is set out in the independent auditors' report on pages 35 to 37.

SUSPENSE OF TRADING IN THE SHARES

The Stock Exchange is requesting the Company for clarification on potentially price sensitive information issue, and the Company is in the course of consulting its professional advisers on this matter.

On the direction of the Stock Exchange, trading in the Company's shares on the Stock Exchange has been suspended since 14 February 2008.

On Behalf of the Board

Zhang Shuyang
Chairman
Hong Kong
19 August 2008

Directors' Report

The Directors are pleased to present their report and the audited financial statements for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 38 to 101.

The Directors do not recommend the payment of any dividend for the year.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published consolidated/combined financial results and consolidated/combined assets, liabilities and minority interests of the Group for the last five financial years is set out on pages 102 of this annual report. The summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Group during the year ended 31 December 2007 are set out in note 13 and 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year ended 31 December 2007 are set out in note 31 to 32 to the financial statements, respectively.

PUBLIC FLOAT

Based on information that is publicly available to the Company and to the best knowledge of the Directors, the Company has complied with the public float requirement set out in the Rule 8.08 of the Listing Rules on the Stock Exchange throughout the year ended 31 December 2007.

DONATION

During 2007, the donation expenditure of the Group was approximately HK$600.

Directors' Report

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2007, so far as the Directors are aware, the following persons (who are not Directors) have interests or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO"), or who is, directly or indirectly interested in 5% or more in the issued share capital of the Company:

Name of Substantial Shareholders	Class of Shares	Capacity	Number of Shares held (Note 4)	Approximate Percentage of Shareholding in the Total Issued Share Capital
Z-Idea Company Limited (Note 1)	Ordinary shares	Beneficial owner	249,000,000(L)	62.25%
Good Day International Limited (Note 2)	Ordinary shares	Beneficial owner	45,000,000(L)	11.25%
Ms. Wu Lixia (Note 3)	Ordinary shares	Interest of controlled corporation	45,000,000(L)	11.25%
數源科技股份有限公司	Ordinary shares	Beneficial owner	38,088,000(L)	9.52%

Notes:

1. Z-Idea Company Limited is wholly owned by Mr. Zhang Shuyang, an Executive Director.

2. Good Day International Limited is owned by Ms. Wu Lixia and Mr. Zhang Xuancheng, the son of Mr. Zhang Shuyang, as to 95% and 5% respectively. Ms. Wu Lixia is the mother of Mr. Zhang Xuancheng.

3. The interest in 45,000,000 shares are deemed corporate interest through Good Day International Limited.

4. The letter "L" denotes a long position.

Save as disclosed above, so far as the Directors are aware, no other person was interested in or had a short position in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO as at 31 December 2007.

SHARE OPTION SCHEME

On 22 June 2004, the Pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") and the share option scheme (the "Share Option Scheme") were approved and adopted by the shareholders of the Company, under which, the Board may, at their sole discretion, grant to any employee of the Group (including any Executive Directors) options to subscribe for shares in the Company subject to the terms and conditions stipulated in the Pre-IPO Share Option Scheme and the Share Option Scheme.

As stipulated in the Pre-IPO Share Option Scheme, no further options can be granted under the Pre-IPO Share Option Scheme from 15 July 2004, being the date on which the Company's shares were listed on the Stock Exchange.

Directors' Report

(a) Pre-IPO Share Option Scheme

As at 31 December 2007, options to subscribe for 29,820,000 shares in aggregate at an exercise price of HK$1.068 have been granted by the Company to a total of 72 employees of the Group. Particulars of the options which have been granted to (i) all Directors; and (ii) continuous contract employees of the Group under the Pre-IPO Share Option Scheme are set out below:

Grantee	Date of grant	Exercise price per share (HK$)	Number of option shares Balance as at 1 January 2007	Exercised during the year ended 31 December 2007	Cancelled/ lapsed during the year ended 31 December 2007	Balance as at 31 December 2007	Exercisable period
(i) Directors							
Mr. Zhang Shuyang (Executive Director)	25/06/2004	1.068	2,300,000	–	–	2,300,000	25/06/2004–24/06/2014 (Note)
Mr. Tung Chi Wai, Terrence (Executive Director)	25/06/2004	1.068	1,950,000	–	–	1,950,000	25/06/2004–24/06/2014 (Note)
Sub-total			4,250,000	–	–	4,250,000	
(ii) Other continuous contract employees							
Senior management employees	25/06/2004	1.068	10,230,000	–	–	10,230,000	25/06/2004–24/06/2014 (Note)
Other employees	25/06/2004	1.068	15,990,000	–	(650,000)	15,340,000	25/06/2004–24/06/2014 (Note)
Sub-total			26,220,000	–	(650,000)	25,570,000	
Grand Total			30,470,000	–	(650,000)	29,820,000	

Note:

Each option has a 10-year exercise period commencing from 25 June 2004 to 24 June 2014. Within the 10-year exercise period, there is a total vesting period of four years. Commencing on the first, second, third and fourth anniversaries of the date of grant of the option, the relevant grantee may exercise up to 0%, 33%, 67% and 100%, respective of the shares comprised in his or her option (less any number of shares in respect of which the option has been previously exercised).

Directors' Report

(b) Share Option Scheme

As at 31 December 2007, no option has been granted under the Share Option Scheme adopted by the Company on 22 June 2004.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the Companies Laws (2004 Revision) of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries, purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2007 are set out in note 33 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2007, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law (2004 Revision) of the Cayman Islands, amounted to approximately HK$77,892,000. The distributable reserves include the Company's share premium and contributed surplus, a total of approximately HK$151,495,000 as at 31 December 2007, which may be distributed, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for approximately 45.3% of the total sales for the year and sales to the Group's largest customer included therein accounted for approximately 13.3% of total sales for the year. Purchases from the Group's five largest suppliers accounted for approximately 26.5% of the total purchases for the year and purchases from the Group's largest supplier included therein accounted for approximately 9.6% of total purchases for the year.

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers and customers.

Directors' Report

DIRECTORS

The Directors during the year ended 31 December 2007 and up to the date of this report were:

EXECUTIVE DIRECTORS:

	Appointment Date	Resignation Date
Mr. Zhang Shuyang	13 February 2004	—
Mr. Tung Chi Wai, Terrence	13 February 2004	—
Mr. Leung Koon Sing	1 August 2008	—
Mr. Kazunori Watanabe	19 June 2004	31 August 2007

INDEPENDENT NON-EXECUTIVE DIRECTORS:

	Appointment Date	Resignation Date
Mr. Mu Xiangming	15 June 2007	—
Mr. Ts'o Shun, Roy	19 June 2004	15 June 2007
Mr. Ede Hao Xi, Ronald	19 June 2004	12 June 2008
Mr. Li Yueh Chen	19 June 2004	12 June 2008
Mr. Selwyn Mar	12 June 2008	7 July 2008
Mr. Lam Chun, Daniel	23 June 2008	12 July 2008

The Board currently comprises three Executive Directors and one Independent Non-executive Director. The number of the Independent Non-executive Directors in the Board falls below the minimum number as required by Rule 3.10 of the Listing Rules. The Company is now actively identifying suitable candidates for appointment as Independent Non-executive Directors in order to satisfy the minimum number as required by the Listing Rules.

Pursuant to articles 86(2) and 87(1) of the Company's articles of association, Mr. Leung Koon Sing will retire by rotation and, being eligible, will offer himself for re-election at the forthcoming annual general meeting of the Company scheduled for 29 September 2008 (the "AGM").

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 12 to 16.

DIRECTORS' SERVICE CONTRACTS

Mr. Zhang Shuyang and Mr. Tung Chi Wai, Terrence who are Executive Directors have entered into service contracts with the Company on 22 June 2004 respectively for an indefinite term subject to termination by either party giving not less than three months' written notice. Mr. Leung Koon Sing, an Executive Director, has entered into a service contract with the Company on 1 August 2008 for a term of two years subject to termination by either party giving not less than three months' written notice. They all may receive discretionary management bonuses to be determined by the Board, but the aggregate amount of the management bonus payable to the then Directors in respect of any financial year of the Company shall not exceed 5% of the audited consolidated net profit of the Group (after tax and minority interests but before extraordinary items and the payment of any such bonus) in respect of that financial year.

Directors' Report

The Independent Non-executive Director, Mr. Mu Xiangming, has entered into a service contract with the Company for a term of two years for an annual fee of HK$120,000.

Apart from the foregoing, no Director proposed for re-election at the AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year ended 31 December 2007.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or in existence during the year ended 31 December 2007.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

None of the Directors had any interest in a business which competes or may compete with the businesses of the Group during the year ended 31 December 2007.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2007, the interests and short positions of the Directors in the share capital, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which are taken or deemed to have been taken under such provisions of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Long positions in ordinary shares of the Company:

Name of Director	Capacity	Number of Shares held	Approximate Percentage of the Company's Issued Capital
Mr. Zhang Shuyang (Note 1)	Interest of controlled corporation	249,000,000	62.25%
Mr. Tung Chi Wai, Terrence (Note 2)	Interest of controlled corporation	6,000,000	1.50%

The interests of the Directors in the share options of the Company are separately disclosed in note 32 to the financial statements.

Directors' Report

Notes:

1 The interest in 249,000,000 shares are deemed corporate interest through Z-Idea Company Limited which is beneficially and wholly owned by Mr. Zhang Shuyang.

2 The interest in 6,000,000 shares are deemed corporate interest through T-Square Company Limited which is beneficially and wholly owned by Mr. Tung Chi Wai, Terrence.

Save as disclosed above, as at 31 December 2007, none of the Directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Division 7 and 8 of Part XV of the SFO, as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme disclosures in note 32 to the financial statements and the paragraph headed "Share Option Schemes" above, at no time during the year ended 31 December 2007 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

CONNECTED TRANSACTIONS

Details of the related party transactions of the Group in 2007 are set out in note 24 "Loans to Directors" and note 39 "Related Party Transactions" to the financial statements. The Board confirmed that the related party transactions set out in the notes constituted connected transactions of the Group under Chapter 14A of the Listing Rules.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 17 to 26.

AUDIT COMMITTEE

The Company recently had in place an Audit Committee but after resignation of Mr. Selwyn Mar and Mr. Lam Chun, Daniel as Independent Non-executive Directors, the Company has only one Independent Non-executive Director following short of the required number to make of an Audit Committee as required by the Rule 3.21 of the Listing Rules. Thus, there was no Audit Committee to review the financial results for the year ended 31 December 2007. However, the single Independent Non-executive Director, Mr. Mu Xiangming, met with the auditors to review the financial results for the year ended 31 December 2007. The Company is actively identifying suitable candidates to be appointed as Independent Non-executive Directors who will also be appointed as Audit Committee members.

AUDITORS

Ernst & Young will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming AGM.

Directors' Report

SUSPENSION OF TRADING IN THE SHARES

At the direction of the Stock Exchange, trading in the shares of the Company has been suspended with effect from 9:30 a.m. on 14 February 2008 and will remain suspended until further notice.

On Behalf of the Board

Zhang Shuyang
Chairman
Hong Kong

19 August 2008

Independent Auditors' Report

ERNST & YOUNG
安 永

To the shareholders of Mitsumaru East Kit (Holdings) Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of Mitsumaru East Kit (Holdings) Limited set out on pages 38 to 101, which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Except for the limitations in the scope of our work as explained in "Basis for Disclaimer of Opinion" below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. However, because of the matters described in "Basis for Disclaimer of Opinion" section of this report, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION

1. Scope limitation on the recoverability of trade receivables

Included in the Group's net trade receivables of approximately HK$255 million as at 31 December 2007 was an aggregate amount of approximately HK$67 million due from several customers within a corporate group located in Russia (the "Russian Customer"). During the first quarter of 2008, approximately HK$25 million of the outstanding balance was settled. A repayment agreement was entered into between the Group and the Russian Customer in April 2008 whereby the latter agreed to settle the remaining outstanding balance with regular monthly payments starting from May 2008. To date, further settlements of approximately HK$9 million were received. However, such settlements had not been in accordance with the repayment agreement and certain scheduled payments were missed. As the repayment agreement had not been adhered to and payments had been missed, we have not been able to obtain sufficient evidence we consider necessary to assess whether the remaining outstanding balance of approximately HK$33 million could be recovered in full, or to determine the amount of impairment, if any, required to be reflected in the consolidated financial statements.

Independent Auditors' Report

Also included in the Group's net trade receivables was an amount of approximately HK$44 million due from another customer located in Argentina (the "Argentinean Customer"). All except for approximately HK$17 million had subsequently been settled. The remittance of HK$17 million had been prohibited by Banco Central Dep. Comercio Exterior, the foreign exchange control office of Argentina (hereinafter referred to as the "Argentina Foreign Exchange Control"), pending on the Argentinean Customer providing evidence, including the Group's corporate structure to its satisfaction. The Group has been assisting the Argentinean Customer in supplying the necessary documents and information. To date, the review process by the Argentina Foreign Exchange Control is still in progress. As a result of the uncertainty of the timing and the outcome of such review, we are unable to ascertain as to how much and when the remaining outstanding balance could ultimately be recovered from the Argentinean Customer. There were no other practical satisfactory audit procedures that we could adopt to assess whether the remaining outstanding balance of HK$17 million could be recovered in full, or to determine the amount of impairment, if any, required to be reflected in the consolidated financial statements.

Any adjustments that might have been found to be necessary in respect of the foregoing matters would have a consequential impact on the net assets of the Group as at 31 December 2007 and the loss attributable to the equity holders of the parent for the year then ended, and the related disclosures in the financial statements.

2. Scope limitation on prior year audit scope limitation affecting opening balances and comparative figures

As previously explained in our report dated 25 April 2007 on the consolidated financial statements of the Group for the year ended 31 December 2006, we were unable to obtain sufficient evidence to assess the value of a brand name pledged to the Group by a debtor against its trade debt of HK$51 million due to the Group as at 31 December 2006. Accordingly, we were unable to ascertain if the trade debt could be recovered in full or to determine the amount of impairment, if any, required to be reflected in the 2006 consolidated financial statements. We qualified our opinion on the financial statements for that year on account of this scope limitation. Subsequent settlement of approximately HK$6 million was received against the outstanding balance at 31 December 2006. However, as the directors of the Company considered that the value of the brand name cannot be reasonably ascertained, an impairment provision for the remaining balance of approximately HK$45 million was made. Such impairment provision was charged to the income statement in the current year.

Any adjustments that might have been found to be necessary in respect of the above as at 31 December 2006 would have a consequential impact on the opening balances of net assets of the Group as at 1 January 2007 and the loss attributable to the equity holders of the parent for the year ended 31 December 2007, and the related disclosures in the financial statements.

Independent Auditors' Report

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN

In forming our opinion, we have considered the adequacy of the disclosures made in note 2.1 to the financial statements with respect to the Group's working capital position. As further explained in note 2.1 to the financial statements, the Group sustained a loss to equity holders of the parent of approximately HK$115 million for the year ended 31 December 2007. It recorded net current liabilities of approximately HK$59 million as at 31 December 2007. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends on whether additional loan facilities can be successfully obtained from a bank and whether continual financial support from a major shareholder and from the Group's principal banks is forthcoming.

We consider that appropriate disclosures and estimates have been made in the financial statements and our opinion is not qualified in this respect.

DISCLAIMER OF OPINION

Because of the significance of the possible effect of the limitations in evidence available to us as set out in the "Basis for Disclaimer of Opinion" section above, we do not express an opinion as to whether the consolidated financial statements of the Group give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2007 and of the loss and cash flow of the Group for the year then ended in accordance with the Hong Kong Financial Reporting Standards. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong
19 August, 2008

Consolidated Income Statement

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
REVENUE	5	**1,065,938**	1,173,795
Cost of sales		**(1,007,366)**	(1,076,009)
Gross profit		**58,572**	97,786
Other income and gains	5	**10,048**	12,120
Selling and distribution costs		**(15,850)**	(17,848)
Administrative expenses		**(56,923)**	(59,510)
Other operating expenses		**(11,672)**	(8,455)
Impairment of trade receivables		**(60,783)**	(574)
Impairment of interest in an associate		**(8,659)**	—
Share of loss of an associate		**(4,094)**	(2,012)
Finance costs	6	**(12,543)**	(10,330)
PROFIT/(LOSS) BEFORE TAX	7	**(101,904)**	11,177
Tax	10	**(13,460)**	(2,750)
PROFIT/(LOSS) FOR THE YEAR		**(115,364)**	8,427
Attributable to:			
Equity holders of the parent	11	**(115,094)**	8,639
Minority interests		**(270)**	(212)
		(115,364)	8,427
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic		**(HK28.8 cents)**	HK2.16 cents
Diluted		**N/A**	N/A

Consolidated Balance Sheet

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**138,365**	127,921
Investment properties	14	**1,874**	7,759
Prepaid land premiums	15	**11,465**	11,034
Other asset		**4,437**	4,437
Golf club membership	16	**360**	360
Interest in an associate	18	**17,657**	28,354
Available-for-sale investment	19	**232**	—
Deposit paid for acquisition of property, plant and equipment		**—**	3,580
Deferred tax assets	30	**4,060**	15,037
Restricted time deposits	20	**—**	7,649
Total non-current assets		**178,450**	206,131
CURRENT ASSETS			
Inventories	21	**124,625**	144,611
Trade and notes receivables	22	**255,443**	386,479
Prepayments, deposits and other receivables	23	**25,700**	58,145
Equity investments at fair value through profit or loss	25	**2,655**	623
Restricted time deposits	20	**7,609**	—
Pledged deposits	26	**75,953**	67,163
Cash and cash equivalents	26	**71,483**	80,980
Total current assets		**563,468**	738,001
CURRENT LIABILITIES			
Trade and bills payables	27	**464,980**	538,886
Other payables, accrued expenses and deposits received		**25,468**	46,712
Interest-bearing bank loans	28	**131,048**	122,384
Tax payable		**117**	1,851
Finance lease payables	29	**635**	605
Total current liabilities		**622,248**	710,438
NET CURRENT ASSETS/(LIABILITIES)		**(58,780)**	27,563

Consolidated Balance Sheet

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**119,670**	233,694
NON-CURRENT LIABILITIES			
Finance lease payables	29	**(620)**	(1,260)
Interest-bearing bank loans	28	**(15,886)**	(19,526)
Deferred tax liabilities	30	**(1,662)**	(515)
Total non-current liabilities		**(18,168)**	(21,301)
Net assets		**101,502**	212,393
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	31	**40,000**	40,000
Reserves	33(a)	**59,783**	171,097
		99,783	211,097
Minority interests		**1,719**	1,296
Total equity		**101,502**	212,393

Mr. Zhang Shuyang
Director

Mr. Tung Chi Wai, Terrence
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2007

		Attributable to equity holders of the parent											
	Notes	Issued capital HK$'000	Share premium account HK$'000	Pre-IPO share option reserve HK$'000	Contributed surplus HK$'000	Statutory surplus reserve HK$'000	Expansion reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Proposed final dividend HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2006		40,000	52,557	4,251	4,990	26,790	701	3,060	64,485	4,500	201,334	–	201,334
Exchange realignment and total income and expenses recognised directly in equity		–	–	–	–	–	–	3,539	–	–	3,539	–	3,539
Profit for the year		–	–	–	–	–	–	–	8,639	–	8,639	(212)	8,427
Total income and expense for the year		–	–	–	–	–	–	3,539	8,639	–	12,178	(212)	11,966
Final 2005 dividend declared		–	–	–	–	–	–	–	–	(4,500)	(4,500)	–	(4,500)
Equity-settled share option arrangements		–	–	2,085	–	–	–	–	–	–	2,085	–	2,085
Share options lapsed during the year		–	–	(750)	–	–	–	–	750	–	–	–	–
Profit appropriation	33(a)	–	–	–	–	901	–	–	(901)	–	–	–	–
Capital contribution from minority shareholders		–	–	–	–	–	–	–	–	–	–	1,508	1,508
At 31 December 2006 and 1 January 2007		40,000	52,557	5,586	4,990	27,691	701	6,599	72,973	–	211,097	1,296	212,393
Exchange realignment and total income and expenses recognised directly in equity		–	–	–	–	–	–	2,795	–	–	2,795	–	2,795
Loss for the year		–	–	–	–	–	–	–	(115,094)	–	(115,094)	(270)	(115,364)
Total income and expense for the year		–	–	–	–	–	–	2,795	(115,094)	–	(112,299)	(270)	(112,569)
Equity-settled share option arrangements		–	–	985	–	–	–	–	–	–	985	–	985
Share options lapsed during the year		–	–	(126)	–	–	–	–	126	–	–	–	–
Profit appropriation	33(a)	–	–	–	–	701	–	–	(701)	–	–	–	–
Capital contribution from minority shareholders		–	–	–	–	–	–	–	–	–	–	693	693
At 31 December 2007		40,000	52,557	6,445	4,990	28,392	701	9,394	(42,696)	–	99,783	1,719	101,502

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**(101,904)**	11,177
Adjustments for:			
Share of loss of an associate		**4,094**	2,012
Impairment of trade receivables		**60,783**	574
Impairment of interest in an associate		**8,659**	—
Impairment of other receivables	7,23	**3,294**	—
Bank interest income	5	**(2,287)**	(4,701)
Other interest income		**(142)**	—
Fair value gain on equity investments at fair value through profit or loss	5	**(6,094)**	(6,543)
Gain on disposal of items of property, plant and equipment	5	**(581)**	—
Finance costs	6	**12,543**	10,330
Depreciation for property, plant and equipment	7	**11,967**	10,457
Depreciation for investment properties	7	**194**	17
Amortisation of prepaid land premiums	7	**380**	251
Provision against slow-moving inventories	7	**12,624**	1,863
Equity-settled share option expenses		**985**	2,085
		4,515	27,522
Increase/(decrease) in inventories		**16,103**	(18,368)
Decrease in trade receivables and notes receivables		**86,854**	43,978
Decrease in prepayments, deposits and other receivables		**31,402**	7,432
Decrease in trade and bills payables		**(114,300)**	(33,729)
Decrease in other payables, accrued expenses and deposits received		**(22,595)**	(8,229)
Cash generated from operations		**1,979**	18,606
Hong Kong profits tax paid		**(1,734)**	—
China corporate income tax refund, net		**—**	5,810
Net cash inflow from operating activities		**245**	24,416
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**2,287**	4,701
Purchases of items of property, plant and equipment		**(8,484)**	(25,306)
Purchase of investment properties		**—**	(7,776)
Purchase of golf club membership		**—**	(360)
Acquisition of available-for-sale investment		**(232)**	—
Acquisition of an associate		**—**	(15,005)
Deposit paid for acquisition of property, plant and equipment		**—**	(3,580)
Proceeds from disposal of items of property, plant and equipment		**2,183**	—
Decrease in restricted time deposits		**40**	4,001
Proceeds from disposal of equity investments at fair value through profit or loss		**4,109**	6,377
Net cash outflow from investing activities — Page 43		**(97)**	(36,948)

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Net cash outflow from investing activities — Page 42		**(97)**	(36,948)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		**–**	(4,500)
New bank loans		**530,286**	513,860
Repayment of bank loans		**(526,228)**	(489,950)
Increase in pledged deposits		**(3,729)**	(54,658)
Interest paid		**(12,430)**	(10,319)
Interest element on finance lease rental payments		**(113)**	(11)
Repayment of finance lease payables		**(610)**	(67)
Capital contribution from minority shareholders		**693**	1,508
Net cash outflow from financing activities		**(12,131)**	(44,137)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(11,983)**	(56,669)
Cash and cash equivalents at beginning of year		**80,980**	136,355
Effect of foreign exchange rate changes, net		**2,486**	1,294
CASH AND CASH EQUIVALENTS AT END OF YEAR		**71,483**	80,980

Balance Sheet

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	17	**164,095**	217,519
Available-for-sale investment	19	**232**	—
Total non-current assets		**164,327**	217,519
CURRENT ASSETS			
Prepayments and other receivables	23	**557**	263
Cash and cash equivalents	26	**150**	216
Total current assets		**707**	479
CURRENT LIABILITIES			
Other payables and accrued expenses		**2,604**	2,407
Financial guarantee contracts	34	**4,125**	—
Total current liabilities		**6,729**	2,407
NET CURRENT LIABILITIES		**(6,022)**	(1,928)
TOTAL ASSETS LESS CURRENT LIABILITIES		**158,305**	215,591
NON-CURRENT LIABILITIES			
Due to subsidiaries	17	**(40,413)**	—
Net assets		**117,892**	215,591
EQUITY			
Issued capital	31	**40,000**	40,000
Reserves	33(b)	**77,892**	175,591
Total equity		**117,892**	215,591

Mr. Zhang Shuyang
Director

Mr. Tung Chi Wai, Terrence
Director

Notes to Financial Statements

31 December 2007

1. CORPORATE INFORMATION

Mitsumaru East Kit (Holdings) Limited is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681GT, George Town, Grand Cayman, British West Indies.

The principal place of business of the Company is located at Unit 606, 6th Floor, Regent Centre, Tower B, 63 Wo Yi Hop Road, Kwai Chung, New Territories, Hong Kong.

The principal activity of the Company during the year was investment holding. There were no significant changes in the nature of the Group's principal activities during the year. The Group's principal activities are the design of the chassis of the Cathode Ray Tube ("CRT") and Liquid Crystal Display ("LCD") colour televisions, and the trading of related components, and the assembling of colour television sets.

In the opinion of the Company's Directors, the holding company and the ultimate holding company of the Group is Z-Idea Company Limited ("Z-Idea"), which is incorporated in the British Virgin Islands (the "BVI").

2.1 BASIS OF PRESENTATION

The Group sustained a loss attributable to equity holders of the parent of approximately HK$115,094,000 for the year ended 31 December 2007 (2006: consolidated net profit of approximately HK$8,639,000). As at 31 December 2007, the Group recorded net current liabilities of approximately HK$58,780,000 (2006: net current assets of HK$27,563,000). In an announcement made on 30 January 2008, the Company advised that the Group's operating results had been affected by a number of adverse factors including impairment of its trade receivables, increasing pressure on profit margins due to a reduction in the selling price of CRT and LCD color televisions' products and an increase in the costs of certain raw materials.

In order to improve the Group working capital position, certain measures had been taken by the Group:

- Certain of the Group's land and buildings located in the PRC with an aggregate carrying value of HK$1,841,000 as at 31 December 2007 had been disposed of for HK$3,417,000 subsequent to the balance sheet date. The net proceeds were used as the Group's working capital.

- The Group has also entered into a provisional sales and purchase agreement to dispose of certain of its land and buildings and investment properties located in Hong Kong with an aggregate carrying value of HK$29,396,000 as at 31 December 2007 for a consideration of HK$27,000,000. The proceeds from the disposal, net of the related mortgage loan of approximately HK$16,030,000 and disposal expenses will be used as the Group's working capital.

- The Group has renegotiated its trade credit terms offered to its major customers with an objective to accelerate trade receipts and to reduce finance costs associated with factor financing. Subsequent to the balance sheet date, the Group had ceased the use of factor financing.

- The Group has also successfully negotiated with certain of its creditors for the deferral of settlement of certain trade payables that amounted to approximately HK$9,327,000 as at 31 December 2007 from variable due dates during 2008 to beyond 1 January 2009.

Had the above measures been in effect as at 31 December 2007, the Group's net current liability position would have been reduced from HK$58,780,000 to approximately HK$33,572,000.

Notes to Financial Statements

31 December 2007

2.1 BASIS OF PRESENTATION *(continued)*

In addition to the above, the following measures are being implemented.

- A major shareholder of the Company has agreed to provide an unsecured loan facility of RMB20,000,000 to finance the working capital requirements of the Group as needed.

- The Group is in negotiation with a PRC bank to obtain additional facility to finance the Group's working capital requirements. Such facility will be secured by certain of the Group's land and buildings in the PRC with an aggregate carrying value of HK$13,247,000 as at 31 December 2007.

The consolidated financial statements of the Group for the year ended 31 December 2007 have been prepared by the directors of the Company (the "Directors") on a going concern basis. In the opinion of the Directors, such basis of preparation is appropriate as they believe that the implementation of the above mentioned measures will improve the working capital situation of the Group. Further, the Directors believe that continual financial support from the Group's principal banks is forthcoming.

If the going concern basis is not appropriate, adjustments would have to be made to restate the values of the assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

2.2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for equity investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$"), and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent interest of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

Notes to Financial Statements

31 December 2007

2.3 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretations has had no material effect on these financial statements.

HKFRS 7	*Financial Instruments: Disclosures*
HKAS 1 Amendment	*Capital Disclosures*
HK(IFRIC)-Int 8	*Scope of HKFRS 2*
HK(IFRIC)-Int 9	*Reassessment of Embedded Derivatives*
HK(IFRIC)-Int 10	*Interim Financial Reporting and Impairment*

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 7 *Financial Instruments: Disclosures*

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

(b) Amendment to HKAS 1 *Presentation of Financial Statements — Capital Disclosures*

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 40 to the financial statements.

(c) HK(IFRIC)-Int 8 *Scope of HKFRS 2*

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has only issued equity instruments to the Group's employees in accordance with the Group's share option scheme, the interpretation has had no effect on these financial statements.

(d) HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives*

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contracts, the interpretation has had no effect on these financial statements.

Notes to Financial Statements

31 December 2007

2.3 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(e) HK(IFRIC)-Int 10 *Interim Financial Reporting and Impairment*

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

2.4 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, applicable to these financial statements, that have been issued but are not yet effective, in these financial statements.

HKFRS 2 Amendments	*Share-based Payment — Vesting Conditions and Cancellations*[1]
HKFRS 3 (Revised)	*Business Combinations*[2]
HKFRS 8	*Operating Segments*[1]
HKAS 1 (Revised)	*Presentation of Financial Statements*[1]
HKAS 23 (Revised)	*Borrowing Costs*[1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[2]
HKAS 32 and HKAS 1 Amendments	*Puttable Financial Instruments and Obligations Arising on Liquidation*[1]
HK(IFRIC)-Int 11	*HKFRS 2 — Group and Treasury Share Transactions*[5]
HK(IFRIC)-Int 12	*Service Concession Arrangements*[3]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*[4]
HK(IFRIC)-Int 14	*HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*[3]

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

2 Effective for annual periods beginning on or after 1 July 2009

3 Effective for annual periods beginning on or after 1 January 2008

4 Effective for annual periods beginning on or after 1 July 2008

5 Effective for annual periods beginning on or after 1 March 2007

Notes to Financial Statements

31 December 2007

2.4 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKAS 1 (Revised) separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, HKAS 1 (Revised) introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in a single statement, or in two linked statements. The Group is evaluating whether it will have one or more statements.

The amendment to HKFRS 2 restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. As the Group has not entered into share-based payment schemes with non-vesting conditions attached, the amendment is not expected to have any financial impact on the Group.

HKFRS 8, which will replace HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

HKFRS 3 has been revised to introduce a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. HKAS 27 has been revised to require that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revisions to HKFRS 3 and HKAS 27 will be applied by the Group prospectively as required under the revised standards and will affect future acquisitions and transactions of the Group with minority interests.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset.

HKAS 27 has been revised to add new term "non-controlling interest" to replace the term "minority interest", and required the changes in the parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity measures any gain or loss arising on the loss of control of a subsidiary.

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2.4 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKAS 32 and HKAS 1 Amendments permitted a range of entities to recognise their capital as equity rather than as financial liabilities, and required additional disclosures for puttable financial instruments classified as equity. The amendment reinforces that this is a limited scope exception to the definition of a financial liability and no analogies should be made to these requirements.

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services.

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 "Employee Benefit", on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 may result in new or amended disclosures and the adoption of HKAS 23 (Revised) may result in a change in accounting policy, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Notes to Financial Statements

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Associates

An associate is an entity, not being a subsidiary, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interest in an associate is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associate is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associate is eliminated to the extent of the Group's interest in the associate, except when unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of an associate is included as part of the Group's interests in an associate. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of an associate are included in the Company's income statement to the extent of dividends received and receivable. The Company's interest in an associate is treated as non-current assets and is stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of associate represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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31 December 2007

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

Notes to Financial Statements

31 December 2007

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties *(continued)*

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Land and buildings	2% — 18%
Plant and machinery	9% — 20%
Motor vehicles	9% — 30%
Office equipment	9% — 30%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Notes to Financial Statements

31 December 2007

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost represents the purchase price of the investment properties and other cost incurred to bring the properties into their existing use.

Depreciation of investment properties is calculated on a straight-line basis to write off the cost of investment properties to its residual value over its lease term.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Club membership

Club membership are stated at cost less any impairment losses. Cost includes fees and expenses directly related to the acquisition of the club membership.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land premiums under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Other asset

Other asset held on a long term basis is stated at cost less any impairment loss.

Notes to Financial Statements

31 December 2007

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Notes to Financial Statements

31 December 2007

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Available-for-sale investments

Available-for-sale investments are non-derivative financial assets in unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale investments" and are transferred from the available-for-sale investment revaluation reserve.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Impairment of financial assets

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Notes to Financial Statements

31 December 2007

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Assets carried at amortised cost (continued)

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or ''prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share price volatility. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Notes to Financial Statements

31 December 2007

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets *(continued)*

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities at amortised cost (including interest-bearing bank loans)

Financial liabilities including trade and bills payables, other payables, interest-bearing bank loans and finance lease payables, are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expenses is recognised within "finance cost" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets;* and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Notes to Financial Statements

31 December 2007

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with interests in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with interests in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Notes to Financial Statements

31 December 2007

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

The carrying amount of deferred tax 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 deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) rental income, on a time proportion basis over the lease terms;

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(d) subsidy income, when the right to receive payment has been established.

Share-based payment transactions

The Company operates share option schemes (including pre-IPO share option scheme) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including Directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by independent professionally qualified valuers using binomial model, further details of which are given in note 32. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

Notes to Financial Statements

31 December 2007

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payment transactions *(continued)*

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries, namely, East Kit Electronic (China) Co., Ltd. ("East Kit (China)"), East Kit Electronic (Shanghai) Co., Ltd. ("East Kit (Shanghai)"), Mitsumaru Electronic (Wuhu) Co., Ltd. ("Mitsumaru (Wuhu)"), Shenzhen Mitsumaru Electrical Co., Ltd. ("Mitsumaru (Shenzhen)") and Kaern GmbH, which operate in Mainland China or in Germany are required to participate in a central pension scheme (the "CPB Scheme") operated by the local municipal government. These subsidiaries are required to contribute a percentage ranging from 10% to 22.5% of their payroll costs to the CPB Scheme. The only obligation of the Group with respect to the CPB Scheme is the ongoing required contributions under the CPB Scheme which are charged to the income statement as they become payable in accordance with the rules.

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31 December 2007

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries and associate are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date, and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Notes to Financial Statements

31 December 2007

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments — Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals and another portion that is held for use in the supply of goods or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the supply of goods or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not quality as an investment property.

Income taxes

The Group has exposure to income taxes in various jurisdictions. Significant judgement is involved in determining the group-wise provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises income tax liabilities based on estimated assessable profits, the rate of tax prevailing in the countries of operation, and the existing tax legislations, interpretations, and practices in respect thereof. Where the final tax outcome is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax is provided using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Notes to Financial Statements

31 December 2007

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Judgements *(continued)*

Income taxes (continued)

Deferred tax assets are recognised for unused tax losses carried forward to the extent that it is probable (i.e., more likely than not) that future taxable profits will be available against which the unused tax losses can be utilised, based on all available evidence. Recognition primarily involves judgement regarding the future performance of the particular legal entity or tax group in which the deferred tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences, tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amount of deferred tax assets and related financial models and budgets are reviewed at each balance sheet date and to the extent that there is insufficient convincing evidence that sufficient taxable profits will be available within the utilisation periods to allow utilisation of the carryforward tax losses, the asset balance will be reduced and charged to the income statement.

Employee benefits — share-based payment transactions

The valuation of the fair value of the share options granted requires judgement in determining the expected volatility of the share price, the dividends expected on the shares, the risk-free interest rate during the life of the option and the number of share options that are expected to become exercisable, and details of which are set in note 32 to the financial statements. Where the outcome of the number of options that are exercisable is different from the previously estimated number of exercisable options, such difference will impact the income statement in the subsequent remaining vesting period of the relevant share options.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Notes to Financial Statements

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4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

(i) Business segments

The Group has two business segments, namely, (i) the design of the chassis of the CRT and LCD colour televisions and the trading of related components segment, and (ii) the assembling of colour television sets segment. The design of the chassis of colour televisions and the trading of related components segment constitutes more than 90% of the Group's revenue. Moreover, the segment results and segment assets for the assembling of colour television sets segment are less than 10% of the Group's results and total assets, respectively. Therefore, no business segment analysis is presented.

(ii) Geographical segments

In determining the Group's geographical segments, revenue is attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

The following tables present revenue and certain asset and capital expenditure information for the Group's geographical segments for the years ended 31 December 2007 and 2006.

Group	Segment revenue-sales to external customers	
	2007	2006
	HK$'000	HK$'000
Mainland China	**450,748**	565,820
Asia (other than Mainland China)	**216,169**	242,548
Europe	**235,791**	235,733
South America	**160,646**	121,904
Australia	**29**	7,477
Others	**2,555**	313
	1,065,938	1,173,795

	Segment assets	
	2007	2006
	HK$'000	HK$'000
Mainland China	**451,528**	588,639
Hong Kong	**271,301**	342,860
Europe	**16,392**	11,531
Japan	**2,697**	1,102
	741,918	944,132

Notes to Financial Statements

31 December 2007

4. SEGMENT INFORMATION *(continued)*

(ii) Geographical segments *(continued)*

Group	Segment capital expenditure	
	2007	2006
	HK$'000	HK$'000
Mainland China	**11,575**	14,671
Hong Kong	**120**	37,803
Japan	**17**	77
Europe	**352**	14
	12,064	52,565

5. REVENUE AND OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold upon delivery of goods, after allowances for returns and trade discounts and business/sales tax where applicable.

An analysis of the Group's revenue and other income and gains is as follows:

	2007	2006
	HK$'000	HK$'000
Revenue		
Sale of goods	**1,065,938**	1,173,795
Other income and gains		
Bank interest income	**2,287**	4,701
Other interest income	**142**	—
Rental income	**189**	18
Fair value gain on equity investments at fair value through profit or loss	**6,094**	6,543
Gain on disposal of items of property, plant and equipment	**581**	—
Subsidy income	**—**	126
Others	**755**	732
	10,048	12,120

Notes to Financial Statements

31 December 2007

6. FINANCE COSTS

	Group 2007 HK$'000	2006 HK$'000
Interest on bank loans wholly repayable within five years	**11,567**	10,319
Interest on bank loans not wholly repayable within five years	**863**	—
Interest on finance lease payables	**113**	11
Total interest expenses	**12,543**	10,330

7. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging:

	Notes	2007 HK$'000	2006 HK$'000
Cost of inventories sold		**992,082**	1,048,891
Depreciation for property, plant and equipment	13	**11,967**	10,457
Depreciation for investment properties	14	**194**	17
Amortisation of prepaid land premiums	15	**380**	251
Research and development costs*		**2,037**	2,246
Minimum lease payments under operating leases in respect of land and buildings		**929**	1,010
Auditors' remuneration		**1,900**	1,450
Employee benefit expenses (including Directors' remuneration — note 8):			
Wages and salaries		**50,258**	49,309
Equity-settled share option expense		**985**	2,085
Pension scheme contributions		**7,707**	6,091
		58,950	57,485
Direct operating expenses arising on rental-earning investment properties		**105**	—
Impairment of other receivables*	23	**3,294**	—
Foreign exchange difference, net*		**2,107**	2,223
Provision against slow-moving inventories**		**12,624**	1,863

* These items are included in "Other operating expenses" on the face of the consolidated income statement.

** This item is included in "Cost of sales" on the face of the consolidated income statement.

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8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2007 HK$'000	2006 HK$'000
Fees	**395**	390
Other emoluments:		
Salaries, allowances and benefits in kind	**10,148**	12,249
Discretionary bonus*	**1,000**	—
Employee share option benefits	**395**	761
Pension scheme contributions	**42**	42
	11,585	13,052
	11,980	13,442

* Discretionary bonus was paid to an Executive Director at his retirement.

In the prior year, certain Directors were granted share options, in respect of their services to the Group, under the share option schemes of the Company, further details of which are set out in note 32 to the financial statements. The fair value of such options, which has been amortised in the income statement, was determined as at the date of grant and was included in the above Directors' remuneration disclosures.

(a) Independent Non-executive Directors

The fees paid to Independent Non-executive Directors during the year were as follows:

	2007 HK$'000	2006 HK$'000
Mr. Ede Hao Xi, Ronald	**150**	150
Mr. Ts'o Shun, Roy	**60**	120
Mr. Li Yueh Chen	**120**	120
Mr. Mu Xiangming	**65**	—
	395	390

There were no other emoluments payable to the Independent Non-executive Directors during the year (2006: Nil).

Notes to Financial Statements

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8. DIRECTORS' REMUNERATION *(continued)*

(b) Executive Directors

	Salaries, allowances and benefits in kind HK$'000	Discretionary bonus HK$'000	Employee share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2007					
Mr. Zhang Shuyang	**4,458**	**–**	**155**	**18**	**4,631**
Mr. Tung Chi Wai, Terrence	**3,398**	**–**	**132**	**12**	**3,542**
Mr. Kazunori Watanabe	**2,292**	**1,000**	**108**	**12**	**3,412**
	10,148	**1,000**	**395**	**42**	**11,585**
2006					
Mr. Zhang Shuyang	5,139	–	299	18	5,456
Mr. Tung Chi Wai, Terrence	3,926	–	254	12	4,192
Mr. Kazunori Watanabe	3,184	–	208	12	3,404
	12,249	–	761	42	13,052

There was no arrangement under which a Director waived or agreed to waive any remuneration during the year.

The above Executive Directors' remuneration equalled to the compensation of key management personnel of the Group.

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2006: three) Directors, details of whose remuneration are disclosed in note 8 above. Details of the remuneration of the remaining two (2006: two) non-Director, highest paid employees for the year are as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,692**	1,623
Employee share option benefits	**11**	25
Pension scheme contributions	**232**	199
	1,935	1,847

The number of non-Director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2007	2006
Nil to HK$1,000,000	**1**	1
HK$1,000,001 to HK$1,500,000	**1**	1
	2	2

During the year, no share options were granted under the Company's share option schemes to the two non-Director, highest paid employees in respect of their services to the Group.

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere, if applicable, have been calculated at the rates of tax prevailing in the regions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The subsidiaries operating in Mainland China were granted a tax concession whereby they enjoyed exemption from corporate income tax ("CIT") for two years starting from the first year in which they record assessable profits, after deducting tax losses brought forward, and are entitled to a 50% exemption from CIT for the following three years.

On 16 March 2007, the Fifth Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("New PRC Tax Law") which took effect on 1 January 2008. The PRC income tax rate is unified to 25% for all enterprises.

Notes to Financial Statements

31 December 2007

10. TAX *(continued)*

The State Council of the PRC passed an implementation guidance note ("Implementation Guidance") on 26 December 2007, which set out details of how existing preferential income tax rates will be adjusted to the standard rate of 25%. According to the Implementation Guidance, certain PRC enterprises of the Group which have not fully utilised the five-year tax holiday will be allowed to continue to enjoy a full exemption for reduction in income tax rate until the expiry of the tax holiday, after which, the 25% standard rate will apply.

The tax concession granted to East Kit (Shanghai) expired prior to 1 January 2005. Upon obtaining an approval for additional concession with effect on 1 January 2005, East Kit (Shanghai) was granted a partial exemption from the national and local portion of CIT for three years as it qualified as an "Advanced Technology Company" pursuant to the tax regulation in Mainland China. The CIT rate applied to East Kit (Shanghai) for the year was 13.5% (2006: 13.5%).

The tax concession granted to Mitsumaru (Wuhu) commenced on 1 January 2004 and Mitsumaru (Wuhu) was exempted from CIT for 2004 and 2005. Pursuant to the tax regulation in Mainland China, a 50% tax reduction is granted to Mitsumaru (Wuhu) for the succeeding three years. The CIT rate applied to Mitsumaru (Wuhu) for the year was 12% (2006: 12%).

	Group	
	2007	2006
	HK$'000	HK$'000
Current year provision:		
Mainland China	**705**	1,750
Tax refunded	**—**	(5,894)
Deferred — note 30	**12,755**	6,894
Total tax charge for the year	**13,460**	2,750

During the year ended 31 December 2006, the Group decided to increase the capital contribution to East Kit (Shanghai) by capitalising its retained profits to paid-up capital. In accordance with the tax regulations in Mainland China, CIT previously paid on retained profits being capitalised can be refunded. The refund of HK$5,894,000 represented refund arising from the capitalisation of the retained profits during the year ended 31 December 2006.

Notes to Financial Statements

31 December 2007

10. TAX *(continued)*

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rate to the tax expense at the effective tax rate is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Profit/(loss) before tax	**(101,904)**	11,177
Tax at the statutory tax rate of 17.5% (2006: 17.5%)	**(17,833)**	1,956
Different tax rates applicable to subsidiaries operating in Mainland China	**2,586**	2,019
Effect on opening deferred tax of increase in rate	**581**	—
Income not subject to tax	**(530)**	(327)
Expenses not deductible for tax	**14,830**	1,759
Tax losses not recognised	**13,826**	3,237
Tax refunded	**—**	(5,894)
Tax charge at the Group's effective rate	**13,460**	2,750

11. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit/(loss) attributable to equity holders of the parent for the year ended 31 December 2007 included a loss of HK$98,684,000 (2006: a profit of HK$13,980,000) which has been dealt with in the financial statements of the Company (note 33 (b)).

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings/(loss) per share for the year is based on the loss for the year attributable to ordinary equity holders of the parent of HK$115,094,000 (2006: profit of HK$8,639,000), and 400,000,000 (2006: 400,000,000) ordinary shares in issue during the year.

The diluted earnings/(loss) per share amounts for the years ended 31 December 2007 and 2006 have not been disclosed as the outstanding options during both years have an anti-dilutive effect on the basic earnings/(loss) per share for these years.

Notes to Financial Statements

31 December 2007

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Notes	Land and buildings HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Office equipment HK$'000	Construction in progress HK$'000	Total HK$'000
Cost:							
At 1 January 2006		61,626	17,265	8,273	22,594	605	110,363
Additions		22,440	12,888	886	3,875	4,700	44,789
Disposals		—	(11)	(47)	—	—	(58)
Transfer		4,232	—	—	—	(4,232)	—
Exchange realignments		1,014	300	242	696	23	2,275
At 31 December 2006 and 1 January 2007		89,312	30,442	9,354	27,165	1,096	157,369
Additions		762	7,792	293	3,217	—	12,064
Disposals		(1,807)	—	—	—	—	(1,807)
Transfer		1,096	—	—	—	(1,096)	—
Transfer from investment properties	14	5,848	—	—	—	—	5,848
Exchange realignments		4,840	1,062	664	1,805	—	8,371
At 31 December 2007		100,051	39,296	10,311	32,187	—	181,845
Accumulated depreciation:							
At 1 January 2006		5,077	3,569	2,175	7,530	—	18,351
Provided during the year	7	3,122	2,621	1,326	3,388	—	10,457
Disposals		—	(11)	(47)	—	—	(58)
Exchange realignments		203	135	85	275		698
At 31 December 2006 and 1 January 2007		8,402	6,314	3,539	11,193	—	29,448
Provided during the year	7	3,813	3,082	807	4,265	—	11,967
Transfer from investment properties	14	157	—	—	—	—	157
Disposals		(205)	—	—	—	—	(205)
Exchange realignments		647	359	250	857	—	2,113
At 31 December 2007		12,814	9,755	4,596	16,315	—	43,480
Net carrying amounts:							
At 31 December 2007		87,237	29,541	5,715	15,872	—	138,365
At 31 December 2006		80,910	24,128	5,815	15,972	1,096	127,921

The Group's buildings as at 31 December 2007 are held under the following lease terms:

	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
At cost:			
Medium term leases	28,288	71,763	100,051

The net carrying amount of the Group's machinery held under finance leases included in the total amount of machinery at 31 December 2007 was HK$2,060,000 (2006: HK$2,296,000).

Notes to Financial Statements

31 December 2007

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Included in the Group's leasehold land and buildings are the leasehold land and buildings situated in Hong Kong with a total cost of HK$28,288,000 (2006: HK$22,440,000) as at 31 December 2007 under medium term leases. As the related prepaid land premium cannot be allocated reliably between the land and the building elements, the entire land element is included in the cost of leasehold land and building as a finance lease in property, plant and equipment in accordance with the provision of HKAS 17.

At 31 December 2007, the following were pledged to secure a mortgage loan and bank loan granted to the Group (note 28):

(a) certain of the Group's leasehold land and buildings and plant and machinery with net carrying amounts of HK$81,368,000 (2006: HK$22,394,000). The related leasehold land element of HK$8,219,000 (2006: Nil) is included in the "prepaid land premiums" as set out in note 15 to the financial statements; and

(b) plant and machinery with net carrying amounts of HK$6,925,000 (2006: HK$8,251,000).

14. INVESTMENT PROPERTIES

	Group	
	2007	2006
	HK$'000	HK$'000
Cost:		
At 1 January	**7,776**	—
Additions	**—**	7,776
Transfer to property, plant and equipment (note 13)	**(5,848)**	—
At 31 December	**1,928**	7,776
Accumulated depreciation:		
At 1 January	**17**	—
Transfer to property, plant and equipment (note 13)	**(157)**	—
Provided during the year (note 7)	**194**	17
At 31 December	**54**	17
Net carrying amount	**1,874**	7,759

The Group's investment properties are situated in Hong Kong and are held under medium term leases. As at 31 December 2007, the fair value of the Group's investment properties was HK$2,130,000 (2006: HK$7,776,000) which was determined by an independent professional valuer, Vigers Appraisal & Consulting Limited, on an open market, existing use basis. The investment properties are leased to third parties under operating leases, further details of which are included in note 36 to the financial statements.

At 31 December 2007, the Group's investment properties with a net carrying value of HK$1,874,000 (2006: HK$7,759,000) were pledged to secure mortgage loan granted to the Group (note 28).

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15. PREPAID LAND PREMIUMS

	Group	
	2007	2006
	HK$'000	HK$'000
Carrying amount at 1 January	**11,290**	11,145
Recognised during the year (note 7)	**(380)**	(251)
Exchange realignment	**831**	396
Carrying amount at 31 December	**11,741**	11,290
Current portion included in prepayments, deposits and other receivables	**(276)**	(256)
Non-current portion	**11,465**	11,034

The leasehold land is held under a medium term lease and is situated in Mainland China.

16. GOLF CLUB MEMBERSHIP

	Group	
	2007	2006
	HK$'000	HK$'000
Cost at 1 January 2007	**360**	—
Additions	**—**	360
At 31 December 2007	**360**	360

Impairment testing of golf club membership

The recoverable amount of the golf club membership is determined based on its estimated fair value at the balance sheet date.

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17. INTERESTS IN SUBSIDIARIES

	Company 2007 HK$'000	2006 HK$'000
Unlisted shares, at cost	**103,074**	98,949
Due from subsidiaries	**141,720**	141,425
Due to subsidiaries	**(40,413)**	(22,855)
	204,381	217,519
Impairment #	**(80,699)**	—
	123,682	217,519
Due to subsidiaries classified as non-current liabilities	**40,413**	—
	164,095	217,519

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of the amounts due approximate to their fair values.

The amounts due to subsidiaries are unsecured and interest-free. In the opinion of the directors, the non-current portion will not be repayable within the next twelve months.

An impairment loss was recognised during the year ended 31 December 2007 due to sustained loss making conditions of the respective subsidiaries.

As at 31 December 2007, included in the above impairment was a provision of HK$1,474,000 (2006: Nil) on amounts due from subsidiaries. Movements in the provision for impairment on amounts due from subsidiaries are as follows:

	Company 2007 HK$'000	2006 HK$'000
At 1 January	**—**	—
Impairment loss recognised	**1,474**	—
At 31 December	**1,474**	—

Notes to Financial Statements

31 December 2007

17. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered and paid-up share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Mitsumaru (Holdings) Limited	Hong Kong	Ordinary HK$100 Deferred HK$5,000,000	–	100	Investment holding
Mitsumaru (H.K.) Limited	Hong Kong	HK$10,000	–	100	Trading of electronic components
Crown Grace Limited	Hong Kong	HK$1	–	100	Properties Investments
East Kit Electronic (China) Co., Ltd. *#	Mainland China	Paid-up registered US$11,000,000	–	100	Design of the chassis of colour televisions and trading of electronic components
East Kit Electronic (Shanghai) Co., Ltd *#	Mainland China	Paid-up registered US$12,650,000	–	100	Design of the chassis of colour televisions and trading of electronic components
Mitsumaru Electronic (Wuhu) Co., Ltd. *#	Mainland China	Paid-up registered US$1,300,000	–	100	Assembling of colour television sets and other electronic components
Mitsumaru (Japan) Limited #	Japan	Paid-up registered JPY 30,000,000	–	67	Trading of electronic components
Kaern GmbH #	Germany	Nominal EUR450,000	–	90	Trading of electronic components
Mitsumaru East Kit (Group) Limited ("Mitsumaru EK Group")	BVI	HK$1	100	–	Investment holding

* These subsidiaries are registered as wholly-foreign-owned enterprises under the PRC law.

\# Not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

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18. INTEREST IN AN ASSOCIATE

	Group 2007 HK$'000	2006 HK$'000
Share of net assets	**17,657**	20,147
Goodwill on acquisition	**8,659**	8,207
	26,316	28,354
Impairment	**(8,659)**	—
	17,657	28,354

The above goodwill on acquisition is relevant to the design of the display system cash-generating unit, which is a reportable segment of the Group, for impairment testing purposes.

The recoverable amount of the design of the display system cash-generating unit has been determined based on a value in use calculation using cash flow projections approved by management. The discount rate applied to the cash flow projections is 12% and cash flows beyond the forecast period are extrapolated using the historical financial information without an aggressive growth rate being taken into account by management.

During the year ended 31 December 2007, an impairment loss of HK$8,659,000 (2006: Nil) has been recognised in the income statement for the interest in an associate, including the share of net assets and goodwill as management believes that the recoverable amount of the design of the display system cash-generating unit is less than the carrying amount of the interest in an associate.

Particulars of the associate are as follows:

Name	Place of registration and operations	Nominal value of registered and paid-up share capital	Percentage of ownership interest attributable to the Group	Principal activities
Cyber Opto-Electronical Technology Co., Ltd. *	Mainland China	Paid-up registered RMB30,800,000	38.5%	Research and development and manufacture of high resolution large screen rear projection display system

* Not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

The following table illustrates the summarised financial information of the Group's associate extracted from its management accounts.

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18. INTEREST IN AN ASSOCIATE *(continued)*

	2007 HK$'000	2006 HK$'000
Assets	**43,429**	52,442
Liabilities	**160**	115
Revenue	**5,953**	6,527
Loss	**10,632**	7,449

19. AVAILABLE-FOR-SALE INVESTMENT

	Group		Company	
	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000
Unlisted equity investment, at cost	**232**	—	**232**	—

The above investment consists of investment in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

As at 31 December 2007, unlisted equity investment of the Group with a carrying amount of HK$232,000 (2006: Nil) was stated at cost because the variability in the range of reasonable fair value estimate was so significant that the Directors were of the opinion that their fair values could not be measured reliably. The Group does not intend to dispose of the investment in the near future.

20. RESTRICTED TIME DEPOSITS

Pursuant to agreements entered into between the Group and a supplier dated 28 June 2002 and 31 March 2005, the Group agreed to use certain of its bank deposits as security to guarantee the Group's performance and settlement of all of its outstanding obligations and liabilities due to the supplier in connection with the supply of electronic components. The restricted time deposits had been released subsequent to 31 December 2007.

21. INVENTORIES

	Group	
	2007 HK$'000	2006 HK$'000
Raw materials	**70,192**	93,052
Work in progress	**5,380**	—
Finished goods	**49,053**	51,559
	124,625	144,611

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22. TRADE AND NOTES RECEIVABLES

	Group	
	2007	2006
	HK$'000	HK$'000
Trade and notes receivables	**344,913**	415,166
Impairment	**(89,470)**	(28,687)
	255,443	386,479

The Group's trading terms with its customers are mainly on credit, except for the new customers, where payment in advance is normally required. The credit period generally ranges from 30 to 120 days, extending to up to six months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise the credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Within 90 days	**148,107**	267,945
91 days to 180 days	**49,840**	86,915
181 days to 1 year	**53,805**	18,649
Over 1 year	**3,691**	12,970
	255,443	386,479

Movements in provision for impairment of trade receivables are as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
At 1 January	**28,687**	28,113
Impairment losses recognised	**60,783**	574
	89,470	28,687

The above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$60,783,000 (2006: HK$574,000) with carrying amount of HK$78,935,000 (2006: HK$574,000). Such individually impaired trade receivables include i) customers that were in financial difficulties and only a portion of the receivables is expected to be recovered and; ii) certain amounts of the receivables that were in dispute.

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22. TRADE AND NOTES RECEIVABLES *(continued)*

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Neither past due nor impaired	**107,095**	187,667
Less than 1 month past due	**31,245**	57,106
1 to 3 months past due	**98,951**	141,706
	237,291	386,479

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Included in the trade receivables balance at 31 December 2007 was an aggregate amount of approximately HK$67 million due from several customers within a corporate group located in Russia (the "Russian Customer"). During the first quarter of 2008, approximately HK$25 million of the outstanding balance was settled. A repayment agreement was entered into between the Group and the Russian Customer on 17 April 2008 whereby the latter agreed to settle the remaining outstanding balance with regular monthly payments starting from May 2008. To date, further settlements of approximately HK$9 million were received.

The Group also recorded trade receivables of approximately HK$44 million due from another customer located in Argentina (the "Argentinean Customer") as at 31 December 2007. All except for approximately HK$17 million had subsequently been settled. The remittance of the HK$17 million had been prohibited by Banco Central Dep. Comercio Exterior, the foreign exchange control office of Argentina (hereinafter referred to as the "Argentina Foreign Exchange Control") pending the Argentinean Customer providing evidence, including the Group's corporate structure to its satisfaction. The Group has been assisting the Argentinean Customer in supplying the necessary documents and information. To date, the review process of the Argentina Foreign Exchange Control is still in progress.

Included in the trade receivables as at 31 December 2006 was an amount due from a debtor (the "Debtor") of HK$51,000,000 (the "Debt"). The Group had entered into a repayment agreement with the Debtor on 16 April 2007. To secure the settlement of the Debt, the Group had also entered into two security pledge agreements with the Debtor. Pursuant to these agreements, the Debtor pledged its inventories with book value of approximately RMB24,867,000 (equivalent to HK$24,867,000) and a floating charge on the money receivable from the sales of these inventories for a value of RMB16,000,000 (equivalent to HK$16,000,000), and its brand names for a value of RMB40,000,000 (equivalent to HK$40,000,000).

The Directors reassessed the financial position and cash flow status of the Debtor during the year and as at 31 December 2007. An impairment of HK$45,451,000 was recognised in the consolidated income statement during the year.

Except for the above, the Group does not hold any collateral or other credit enhancements over its trade balances.

Notes to Financial Statements

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23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		Group		Company	
		2007	2006	**2007**	2006
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Prepayments		**3,748**	3,070	**100**	100
Deposits and other receivables		**24,360**	55,075	**—**	163
Balances with Directors	24	**886**	—	**457**	—
		28,994	58,145	**557**	263
Impairment	7	**(3,294)**	—	**—**	—
		25,700	58,145	**557**	263

Included in the above provision for impairment of prepayments, deposits and other receivables is a provision for individually impaired deposits and other receivables of HK$3,294,000 (2006: Nil) with carrying amount of HK$3,822,000 (2006: Nil). The net balances are unsecured, interest-free, and the carrying amounts of the amounts due approximate their fair values.

Other than the aforementioned impaired other receivables, none of the above balances are past due or impaired for which there was recent history of default.

24. LOANS TO DIRECTORS

Loans to Directors disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

Group

Name	31 December 2007 HK$'000	Maximum amount outstanding during the year HK$'000	1 January 2007 HK$'000
Mr. Tung Chi Wai, Terrence	429	2,544	—
Mr. Zhang Shuyang	457	948	—
	886	3,492	—

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24. LOANS TO DIRECTORS *(continued)*

Company

Name	31 December 2007 HK$'000	Maximum amount outstanding during the year HK$'000	1 January 2007 HK$'000
Mr. Tung Chi Wai, Terrence	—	668	—
Mr. Zhang Shuyang	457	948	—
	457	1,616	—

The loans to Directors are unsecured, interest-bearing at 9% per annum and repayable within one year. The carrying amounts of these loans approximate to their fair values.

25. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2007	2006
	HK$'000	HK$'000
Listed equity investments, at market value:		
Elsewhere	**2,655**	623

The above equity investments at 31 December 2006 and 2007 were classified as held for trading and they were disposed of subsequent to the year end.

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

		Group		Company	
		2007	2006	**2007**	2006
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Cash and bank balances		**71,483**	80,980	**150**	216
Time deposits		**75,953**	67,163	**—**	—
		147,436	148,143	**150**	216
Less: Pledged time deposits for banking facilities	27	**(75,953)**	(67,163)	**—**	—
Cash and cash equivalents		**71,483**	80,980	**150**	216

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26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS *(continued)*

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$22,113,000 (2006: HK$25,959,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirement of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate their fair values.

27. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Within 180 days	**407,285**	446,409
181 days to 1 year	**41,979**	73,572
1 to 2 years	**7,506**	8,451
Over 2 years	**8,210**	10,454
	464,980	538,886

Included in the balance are bills payables of HK$122,315,000 (2006: HK$132,215,000) which were secured by a time deposits of HK$75,953,000 (2006: HK$67,163,000) (Note 26).

28. INTEREST-BEARING BANK LOANS

	Effective interest rate (%)	Maturity	Group 2007 HK$'000	2006 HK$'000
Current				
Bank loans — secured	4.34–8.69	2008	**34,784**	13,556
Bank loans — unsecured	5.39–7.25	2008	**96,264**	108,828
			131,048	122,384
Non-current				
Bank loans — secured	4.34–8.69	2009–2016	**15,886**	19,526
			146,934	141,910

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28. INTEREST-BEARING BANK LOANS *(continued)*

	Group	
	2007	2006
	HK$'000	HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**131,048**	122,384
In the second year	**2,909**	4,917
In the third to fifth years, inclusive	**6,941**	4,776
Beyond five years	**6,036**	9,833
	146,934	141,910

At 31 December 2007, the Group's bank loans, together with the banking facilities, were secured by the following:

(a) pledge over the Group's plant and machinery, which had an aggregate carrying value at the balance sheet date of approximately HK$6,925,000 (2006: HK$8,251,000) (note 13);

(b) mortgage over the Group's leasehold land and buildings situated in Hong Kong, which had an aggregate carrying value at the balance sheet date of approximately HK$27,522,000 (2006: HK$22,394,000) (note 13);

(c) pledge over the Group's leasehold land and buildings situated in Mainland China, which has an aggregate carrying value at the balance sheet date of approximately HK$53,846,000 (2006: Nil) (note 13);

(d) mortgage over the Group's investment properties situated in Hong Kong, which had an aggregate carrying value at the balance sheet date of approximately HK$1,874,000 (2006: HK$7,759,000) (note 14); and

(e) corporate guarantees executed by the Company.

The Group has given undertakings with respect to financial data and ratios to certain banks as support for certain bank loans. Based on these financial statements, the Group had not complied with the terms of these undertakings. In this respect, the Group is in renegotiation with the banks. The related bank loans amounted to HK$86,261,000 as at 31 December 2007. There was no impact on the classification of the loan balances as they are current liabilities.

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28. INTEREST-BEARING BANK LOANS *(continued)*

Other interest rate information:

	Group			
	2007		2006	
	Fixed rate HK$'000	**Floating rate HK$'000**	Fixed rate HK$'000	Floating rate HK$'000
Bank loans — secured	**9,406**	**41,264**	9,939	23,143
Bank loans — unsecured	**—**	**96,264**	—	108,828
	9,406	**137,528**	9,939	131,971

The carrying amounts of the Group's bank loans approximate their fair values.

29. FINANCE LEASE PAYABLES

The Group leases certain machineries. These leases are classified as finance leases and have remaining lease terms ranging from one to two years (2006: one to two years). At 31 December 2007, the total future minimum lease payments under finance leases and their present values, were set out below:

Group	**2007** Minimum lease payments HK$'000	**2007** Present value of minimum lease payments HK$'000	2006 Minimum lease payments HK$'000	2006 Present value of minimum lease payments HK$'000
Amounts payable				
Within one year	**682**	**635**	715	605
In the second year	**666**	**620**	1,361	1,260
Total minimum finance lease payment	**1,348**	**1,255**	2,076	1,865
Future finance charges	**(93)**		(211)	
Total net finance lease payables	**1,255**		1,865	
Portion classified as current liabilities	**(635)**		(605)	
Long term portion	**620**		1,260	

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30. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Group

Deferred tax assets

	Impairment of trade receivables HK$'000
At 1 January 2006	20,820
Deferred tax charged to the income statement during the year (note 10)	(6,962)
Exchange realignment	1,179
At 31 December 2006 and 1 January 2007	15,037
Deferred tax charged to the income statement during the year (note 10)	(11,647)
Exchange realignment	670
At 31 December 2007	4,060

The Group has accumulated tax losses arising in Hong Kong HK$39,539,000 (2006: HK$21,467,000). Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time, or it is not probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised.

Deferred tax liabilities

	Uninvoiced sales HK$'000
At 1 January 2006	562
Deferred tax credited to the income statement during the year (note 10)	(68)
Exchange realignment	21
At 31 December 2006 and 1 January 2007	515
Deferred tax charged to the income statement during the year (note 10)	1,108
Exchange realignment	39
At 31 December 2007	1,662

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31. SHARE CAPITAL

Shares

	2007 HK$'000	2006 HK$'000
Authorised: 1,000,000,000 ordinary shares of HK$0.1 each	**100,000**	100,000
Issued and fully paid: 400,000,000 ordinary shares of HK$0.1 each	**40,000**	40,000

Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 32 to the financial statements.

32. SHARE OPTION SCHEMES

Pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 22 June 2004, the Company approved and adopted a share option scheme (the "Scheme") and a pre-IPO share option scheme (the "Pre-IPO Scheme"). The purpose of these two schemes is to provide incentives and/or rewards to any Director, consultant, advisor person including full-time or part-time employee of the Company and its subsidiaries, at the sole discretion of the board, for their contribution to, and their continuing efforts to promote the interests of the Company. The schemes became effective on 22 June 2004 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The Scheme

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent to, upon their exercise, 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a Director, chief executive or substantial shareholder of the Company, are subject to approval in advance by the Independent Non-executive Directors. In addition, any share options granted to a substantial shareholder or an Independent Non-executive Director of the Company, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer. The exercise period of the share options granted is determinable by the Directors, and commences after a certain vesting period and ends on a date which is not later than five years from the date of the offer of the share options or the expiry date of the Scheme, whichever is earlier.

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32. SHARE OPTION SCHEMES *(continued)*

The Scheme *(continued)*

The exercise price of the share options is determinable by the Directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

At 31 December 2007 and up to the date of approval of these financial statements, no share options have been granted under the Scheme.

The Pre-IPO Scheme

The purpose and the principal terms of the Pre-IPO Scheme, approved and adopted by the Company's shareholders on 22 June 2004, are substantially the same as the purpose and the terms of the Scheme except that:

(i) The subscription price per share shall be the price of each share issued under the public offering, that is, HK$1.068 per share;

(ii) The maximum number of shares which may be issued upon the exercise of all options granted under the Pre-IPO Scheme shall be 35,000,000 shares; and

(iii) Save for the options which have been granted but have not lapsed, cancelled or exercised in full under the Pre-IPO Scheme as set out below, no further options will be offered or granted under the Pre-IPO Scheme after the day immediately prior to the listing of the Company's shares on the Stock Exchange.

On 25 June 2004, options to subscribe for 35,000,000 shares at an exercise price of HK$1.068 were granted by the Company under the Pre-IPO Scheme to a total of 91 employees of the Company at a consideration of HK$1.00 per option under the Pre-IPO Scheme.

The following share options were outstanding under the Pre-IPO Scheme during the year:

	2007		2006	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**1.068**	**30,470**	1.068	34,320
Lapsed during the year	**1.068**	**(650)**	1.068	(3,850)
At 31 December	**1.068**	**29,820**	1.068	30,470

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32. SHARE OPTION SCHEMES *(continued)*

The Pre-IPO Scheme *(continued)*

The exercise prices and exercise periods of the share options outstanding as at that balance sheet date are as follows:

2007

Number of options '000	Exercise price * HK$ per share	Exercise period
29,820	1.068	25 June 2004 to 24 June 2014

2006

Number of options '000	Exercise price * HK$ per share	Exercise period
30,470	1.068	25 June 2004 to 24 June 2014

* The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of the Pre-IPO share option granted on 25 June 2004 was HK$7,598,000. It was estimated by Vigers Appraisal & Consulting Limited, independent professionally qualified valuers, using the binomial model taking into account the terms and conditions upon which the options were granted. During the year ended 31 December 2007, the Group recognised a share option expense of HK$985,000 (2006: HK$2,085,000). The following table lists the inputs to the model used for calculating the fair value of the Pre-IPO share options at the date of grant as follows:

Dividend yield (%)	0.72
Historical volatility (%)	45.00
Risk-free interest rate (%)	4.47
Expected life of option (year)	10.00
Share price at date of grant (HK$)	1.07

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other feature of the Pre-IPO share options was incorporated into the measurement of the fair value.

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33. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and the prior years are presented in the consolidated statement of changes in equity on page 41 of the financial statements.

The Group's contributed surplus represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the group reorganisation, over the nominal value of the Company's shares issued in exchange therefor.

In accordance with the relevant regulation in Mainland China, the subsidiaries operating in Mainland China are required to transfer 10% of their profits after tax, as determined under the accounting regulations in Mainland China, to the statutory surplus reserve, until the balance of the fund reaches 50% of their respective registered capital. The statutory surplus reserve and the expansion reserve are non-distributable, and are subject to certain restrictions set out in the relevant regulations in Mainland China. These reserves can be used either to offset against accumulated losses or be capitalised as paid-up capital. However, such balance of the statutory surplus reserve must be maintained at a minimum of 25% of paid-up capital after the above mentioned usages.

For the year ended 31 December 2007, profit appropriation represented the appropriation of statutory surplus reserve of up to 25% of the paid-up capital for fulfillment of the above statutory requirements.

The appropriation of statutory surplus reserve to retained profits was made with respect to the capitalisation of statutory surplus reserve and retained profits as paid-up capital of East Kit (China) and East Kit (Shanghai) in 2003.

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33. RESERVES *(continued)*

(b) Company

	Share premium account HK$'000	Pre-IPO share option reserve HK$'000	Contributed surplus HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2006	52,557	4,251	98,938	3,780	159,526
Equity-settled share option arrangements	—	2,085	—	—	2,085
Share options lapsed during the year	—	(750)	—	750	—
Profit for the year	—	—	—	13,980	13,980
At 31 December 2006 and 1 January 2007	52,557	5,586	98,938	18,510	175,591
Equity-settled share option arrangements	—	985	—	—	985
Share options lapsed during the year	—	(126)	—	126	—
Loss for the year	—	—	—	(98,684)	(98,684)
At 31 December 2007	52,557	6,445	98,938	(80,048)	77,892

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the group reorganisation completed in 2004, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Law (2004 Revision) of the Cayman Islands, the Company's share premium account and contributed surplus may be distributed to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.5 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

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34. CONTINGENT LIABILITIES

Corporate guarantees

As at 31 December 2007, the fair value of the financial guarantee contracts of HK$4,125,000 was recorded in the Company's balance sheet.

During the year, unlimited guarantees given to banks by the Company and jointly with its subsidiaries in connection with facilities granted to subsidiaries amounted to HK$147,285,000 (2006: HK$152,286,000). The banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$114,796,000 (2006: HK$126,228,000).

35. PLEDGE OF ASSETS

Details of pledge of assets of the Group are included in notes 27 and 28 to the financial statements.

36. OPERATING LEASE ARRANGEMENTS

As lessor

The Group leases its investment properties (note 14) under operating lease arrangements, with leases negotiated for terms of one year (2006: one to two years). The terms of the leases generally also require the tenants to pay security deposits.

At 31 December 2007, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Within one year	**48**	205
In the second to fifth years, inclusive	**–**	61
	48	266

As lessee

During the year ended 31 December 2006, the Group leased its office properties under operating lease arrangements which were negotiated for terms of one year. At 31 December 2007, the Group had no minimum lease obligation under non-cancellable operating leases in respect of land and buildings details are as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Within one year	**–**	73

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37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36 above, the Group had the following capital commitments at the balance sheet date:

	Group 2007 HK$'000	2006 HK$'000
Contracted, but not provided for the capital contribution payable to available-for-sale investment	**810**	–
Contracted, but not provided for on acquisition of plant and machinery	**–**	2,643
Contracted, but not provided for on acquisition of buildings	**–**	578
	810	3,221

At the balance sheet date, neither the Group nor the Company have any other significant commitments.

38. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2006, the Group entered into a non-cash transaction of a finance lease arrangement in respect of the property, plant and equipment, with a total capital value at the inception of the lease of approximately HK$1,932,000.

39. RELATED PARTY TRANSACTIONS

Other than disclosed elsewhere in the financial statements, the Group had the following material transactions with related parties during the current year:

(a) Included in prepayments, deposits and other receivables are as follows:

(i) amounts due from certain companies of the executive directors totalling HK$133,035 (2006: Nil). The balances due are unsecured, interest-free and have no specific terms of repayment;

(ii) amount due from a minority shareholder of a subsidiary amounting to HK$101,000 (2006: Nil). The amount due from a minority shareholder of subsidiary are unsecured, interest free and repayable on an agreed term.

(b) The interest income from loans to executive directors of HK$142,000 was charging at the rate of 9% per annum.

Notes to Financial Statements

31 December 2007

40. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each category of financial instruments as at the balance sheet date are as follows:

	Group							
Financial assets	Financial assets at fair value through profit or loss — held for trading 2007 HK$'000	— held for trading 2006 HK$'000	Loans and receivables 2007 HK$'000	Loans and receivables 2006 HK$'000	Available-for-sale financial assets 2007 HK$'000	Available-for-sale financial assets 2006 HK$'000	Total 2007 HK$'000	Total 2006 HK$'000
Available-for-sale investment (note 19)	—	—	—	—	232	—	232	—
Restricted time deposits	—	—	7,609	7,649	—	—	7,609	7,649
Trade and notes receivables	—	—	255,443	386,479	—	—	255,443	386,479
Financial assets included in prepayments, deposits and other receivables	—	—	13,469	14,582	—	—	13,469	14,582
Equity investments at fair value through profit or loss (note 25)	2,655	623	—	—	—	—	2,655	623
Pledged deposits	—	—	75,953	67,163	—	—	75,953	67,163
Cash and cash equivalents	—	—	71,483	80,980	—	—	71,483	80,980
	2,655	623	423,957	556,853	232	—	426,844	557,476

	Group	
Financial liabilities	Financial liabilities at amortised cost 2007 HK$'000	Financial liabilities at amortised cost 2006 HK$'000
Trade and bills payables	464,980	538,886
Financial liabilities included in other payables, accrued expenses and deposits received	19,972	23,626
Interest-bearing bank loans	146,934	141,910
Finance lease payables	1,255	1,865
	633,141	706,287

Notes to Financial Statements

31 December 2007

40. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

The carrying amounts of each category of financial instruments as at the balance sheet date are as follows (continued):

	Company					
Financial assets	**Loans and receivables 2007 HK$'000**	Loans and receivables 2006 HK$'000	**Available-for-sale financial assets 2007 HK$'000**	Available-for-sale financial assets 2006 HK$'000	**Total 2007 HK$'000**	Total 2006 HK$'000
Due from subsidiaries	**141,720**	141,425	**–**	–	**141,720**	141,425
Available-for-sale investment (note 19)	**–**	–	**232**	–	**232**	–
Financial assets included in prepayments, deposits and other receivables	**485**	263	**–**	–	**485**	263
Cash and cash equivalents	**150**	216	**–**	–	**150**	216
	142,355	141,904	**232**	–	**142,587**	141,904

	Company	
Financial liabilities	**Financial liabilities at amortised cost 2007 HK$'000**	Financial liabilities at amortised cost 2006 HK$'000
Due to subsidiaries	**40,413**	22,855
Financial liabilities included in other payables, accrued expenses and deposits received	**2,604**	2,407
	43,017	25,262

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41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group does not have written risk management policies and guidelines. However, the board of Directors meets periodically to analyse and formulate measures to manage the Group's exposure to market risk, including interest rate risk, foreign currency risk, credit risk and liquidity risk. Generally, the Group introduces conservative strategies on risk management. As the Group's exposure to the market risk is kept at a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes.

At 31 December 2007, the Group's financial instruments mainly comprise cash and cash equivalents, trade receivables, other receivables, equity investments at fair value through profit or loss, trade payables, other payables, bank loans and financial lease payables.

(a) Interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

At present, the Group does not intend to seek to hedge its exposure to interest rate fluctuations. However, the Group will constantly review the economic situation and its interest rate risk profile, and will consider appropriate hedging measures in future as may be necessary.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit/(loss) before tax (through the impact on floating rate time deposits and borrowings) and the Group's and the Company's equity.

	Group			Company	
	Change in basis points	Change in loss before tax	Change in equity	Change in basis points	Change in equity
	%	HK$'000	HK$'000	%	HK$'000
2007					
Hong Kong dollar	**100**	**1,054**	**1,054**	**100**	**2**
2006					
Hong Kong dollar	100	944	944	100	2

Notes to Financial Statements

31 December 2007

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) Foreign currency risk

The Group's monetary assets, loans and transactions are principally denominated in Hong Kong Dollars ("HK$"), Renminbi ("RMB") and United States Dollars ("US$"). The Group is exposed to foreign exchange risk arising from the exposure of HK$ against RMB and US$. Considering that the HK$ is pegged to the US$, the Group believes its exposure to exchange risk will be confined to RMB and HK$. At present, the Group does not intend to hedge its exposure to foreign exchange fluctuations, but will constantly monitor the economic situation and its foreign exchange risk position, and will consider appropriate hedging measures in future as may be necessary and feasible.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's loss before tax and the Group's equity.

	Change in RMB rate %	Change in loss before tax HK$'000	Change in equity HK$'000
2007			
If Hong Kong dollar weakens against RMB	**10**	**1,644**	**1,644**
2006			
If Hong Kong dollar weakens against RMB	10	8,670	8,670

(c) Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. Except for balance from the Argentinean customer, receivable balances are monitored on an ongoing basis to ensure that the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and equity investments at fair value through profit or loss, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Except for the two security pledge agreements with the Debtors as set out in note 22 to the financial statements, the Group trades only with recognised and creditworthy third parties and there is no requirement for collateral.

(d) Liquidity risk

The Group's objective is to ensure adequate funds to meet commitments associated with its financial liabilities. Cash flows are closely monitored on an ongoing basis. The Group will raise funds either through the financial markets or from the realisation of its assets if required.

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31 December 2007

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(d) Liquidity risk *(continued)*

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

Group

	2007				
	On demand HK$'000	**Less than 3 months HK$'000**	**3 to less than 12 months HK$'000**	**1 to 5 years HK$'000**	**Total HK$'000**
Trade and bills payables	**15,716**	**407,285**	**41,979**	**—**	**464,980**
Financial liabilities included in other payables, accrued expenses and deposits received	**19,972**	**—**	**—**	**—**	**19,972**
Interest-bearing bank loans	**16,537**	**115,227**	**3,076**	**17,173**	**152,013**
Finance lease payables	**—**	**170**	**512**	**666**	**1,348**
	52,225	**522,682**	**45,567**	**17,839**	**638,313**

	2006				
	On demand HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	1 to 5 years HK$'000	Total HK$'000
Trade and bills payables	18,905	446,409	73,572	—	538,886
Financial liabilities included in other payables, accrued expenses and deposits received	23,626	—	—	—	23,626
Interest-bearing bank loans	29,383	69,776	28,819	20,166	148,144
Finance lease payables	—	179	536	1,361	2,076
	71,914	516,364	102,927	21,527	712,732

Company

	2007 over one year HK$'000	2006 over one year HK$'000
Due to subsidiaries	**40,413**	22,855

Notes to Financial Statements

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41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(e) Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

The Group monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. The gearing ratios as at the balance sheet dates were as follows:

Group

	Group	
	2007	2006
	HK$'000	HK$'000
Interest-bearing bank loans	**146,934**	141,910
Finance lease payables	**1,255**	1,865
Trade and bills payables	**464,980**	538,886
Other payables, accrued expenses and deposits received	**25,468**	46,712
Less: Cash and cash equivalents	**(71,483)**	(80,980)
Net debt	**567,154**	648,393
Equity attributable to equity holders of the parent	**99,783**	211,097
Capital and net debt	**666,937**	859,490
Gearing ratio	**85%**	75%

42. COMPARATIVE AMOUNTS

As further explained in note 2.3 to the financial statements, due to the adoption of the new and revised HKFRSs during the current year, certain comparative amounts have been added to conform with the current year's presentation and to show separately comparative amounts in respect of items disclosed for the first time in 2007.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of Directors on 19 August 2008.

Five Year Financial Summary

The following is a summary of the published consolidated/combined results and consolidated/combined assets, liabilities and minority interests of the Group, prepared on the basis set out in the note below.

	Year ended 31 December				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE	**1,065,938**	1,173,795	1,066,240	618,413	624,057
PROFIT/(LOSS) BEFORE TAX	**(101,904)**	11,177	19,404	6,045	70,941
Tax	**(13,460)**	(2,750)	(4,475)	2,411	(6,559)
PROFIT/(LOSS) FOR THE YEAR	**(115,364)**	8,427	14,929	8,456	64,382
Attributable to:					
Equity holders of the parent	**(115,094)**	8,639	15,216	8,552	64,732
Minority interests	**(270)**	(212)	(287)	(96)	(350)
	(115,364)	8,427	14,929	8,456	64,382

ASSETS, LIABILITIES AND MINORITY INTERESTS

	At 31 December				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**741,918**	944,132	933,383	576,820	483,015
TOTAL LIABILITIES	**(640,416)**	(731,739)	(732,049)	(392,968)	(337,272)
MINORITY INTERESTS	**(1,719)**	(1,296)	—	(270)	(349)
NET ASSETS	**99,783**	211,097	201,334	183,582	145,394

Note: The summary of the published consolidated or combined results of the Group for the year ended 31 December 2003 and the combined balance sheets of the Group as at 31 December 2003 have been extracted from the Company's prospectus dated 30 June 2004. This summary includes the results of the companies now comprising the Group as if the current structure of the Group had been in existence throughout this financial year, or from the respective dates of incorporation of the companies, which is a shorter period.