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)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER, 2007

The directors (the "Directors") of Mitsumaru East Kit (Holdings) Limited (the "Company" or the "Parent") are pleased to announce the annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007 (the "Year") together with the comparative figures of 2006.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2007

	Notes	**2007** **HK$'000**	2006 HK$'000
REVENUE	3,4	**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	4	**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	5	**(12,543)**	(10,330)
PROFIT/(LOSS) BEFORE TAX	6	**(101,904)**	11,177
Tax	7	**(13,460)**	(2,750)
PROFIT/(LOSS) FOR THE YEAR		**(115,364)**	8,427
Attributable to:			
Equity holders of the Parent		**(115,094)**	8,639
Minority interests		**(270)**	(212)
		(115,364)	8,427
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
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		**138,365**	127,921
Investment properties		**1,874**	7,759
Prepaid land premiums		**11,465**	11,034
Other asset		**4,437**	4,437
Golf club membership		**360**	360
Interest in an associate		**17,657**	28,354
Available-for-sale investment		**232**	—
Deposit paid for acquisition of property, plant and equipment		**—**	3,580
Deferred tax assets		**4,060**	15,037
Restricted time deposits		**—**	7,649
Total non-current assets		**178,450**	206,131
CURRENT ASSETS			
Inventories		**124,625**	144,611
Trade and notes receivables	*9*	**255,443**	386,479
Prepayments, deposits and other receivables		**25,700**	58,145
Equity investments at fair value through profit or loss		**2,655**	623
Restricted time deposits		**7,609**	—
Pledged deposits		**75,953**	67,163
Cash and cash equivalents		**71,483**	80,980
Total current assets		**563,468**	738,001
CURRENT LIABILITIES			
Trade and bills payables	*10*	**464,980**	538,886
Other payables, accrued expenses and deposits received		**25,468**	46,712
Interest-bearing bank loans		**131,048**	122,384
Tax payable		**117**	1,851
Finance lease payables		**635**	605
Total current liabilities		**622,248**	710,438
NET CURRENT ASSETS/(LIABILITIES)		**(58,780)**	27,563
TOTAL ASSETS LESS CURRENT LIABILITIES		**119,670**	233,694

	2007	2006
	HK$'000	*HK$'000*
NON-CURRENT LIABILITIES		
Finance lease payables	**(620)**	(1,260)
Interest-bearing bank loans	**(15,886)**	(19,526)
Deferred tax liabilities	**(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	**40,000**	40,000
Reserves	**59,783**	171,097
	99,783	211,097
Minority interests	**1,719**	1,296
Total equity	**101,502**	212,393

NOTES:

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 products and an increase in the costs of certain raw materials.

In order to improve the Group's 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 subsequent to the balance sheet date. The net proceeds of approximately HK$3,417,000 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 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 has 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 in 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.

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

- A major shareholder of the Company has agreed to provide 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 its 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 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. 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 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.

3. 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 colour televisions and liquid crystal display ("LCD"), 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 LCD, 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.

	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

	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

4. 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

5. FINANCE COSTS

	2007	2006
	HK$'000	*HK$'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

6. PROFIT/(LOSS) BEFORE TAX

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

	2007	2006
	HK$'000	*HK$'000*
Cost of inventories sold	**992,082**	1,048,891
Depreciation for property, plant and equipment	**11,967**	10,457
Depreciation for investment properties	**194**	17
Amortisation of prepaid land premiums	**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):		
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*	**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.

7. 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 which took effect on 1 January 2008. The PRC income tax rate is unified to 25% for all enterprises.

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 from a 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) then commenced on 1 January 2004 and Mitsumaru (Wuhu) was exempted from CIT for 2004 and 2005. Pursuant to the tax regulation in Mainland China, 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	**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.

8. 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.

9. 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 includes 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.

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 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 receivable 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 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 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.

10. 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 time deposits of HK$75,953,000 (2006: HK$67,163,000).

11. EXTRACT OF THE AUDITORS' REPORT

Basis for disclaimer of opinion

1. Scope limitation on the recoverability of trade receivables

Included in the Group's net trade receivable 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 "Russia 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, the auditors have not been able to obtain sufficient evidence they 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.

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 the HK$17 million had been prohibited by 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, the auditors 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 the auditors 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 balance and comparative figures***

As previously explained in the auditors' report dated 25 April 2007 on the consolidated financial statements of the Group for the year ended 31 December 2006, they 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, they 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. They qualified their 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 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.

Fundamental uncertainty relating to the going concern

In forming their opinion, the auditors have considered the adequacy of the disclosures made in note 1 with respect to the Group working capital position. As further explained in note 1, 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.

The auditors consider that appropriate disclosures and estimates have been made in the financial statements and their 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 the auditors as set out in the "Basis for disclaimer of opinion" section above, they do not express an opinion on 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 HKFRSs. In all other respects, in their opinion, the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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. The 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. The loss for the year attributable to equity holders of the Parent was approximately HK$115,100,000. Last year, the profit for the year attributable to equity holders of the Parent was approximately HK$8,600,000. Basic loss per share attributable to ordinary equity holders of the Parent was approximately HK28.8 cents. Last year, the basic earnings per share attributable to ordinary equity holders of the Parent was HK2.16 cents. As at the balance sheet date, balance of cash and cash equivalents and pledged deposits were 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% as compared with 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 increased from approximately HK$110,000,000 for the year ended 31 December 2006 to approximately HK$152,400,000 for the year ended 31 December 2007. For the year under review, the 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 an decrease of approximately 17.5%. However, higher turnover was recorded from the South America market, which increased from approximately HK$121,900,000 for the year ended 31 December 2006 to approximately HK$160,600,000 for the year ended 31 December 2007. The increase was mainly attributable to increase 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

The gross profit margin decreased from 8.3% in 2006 to 5.5% in 2007. Owing to the drop of selling prices of CRT CTV products, combined with increases in the cost of some raw material and components, increase in wages and overheads as well as logistics and transportation costs, the gross profit margin of CTVs generally declined.

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

In the foreseeable future, the Group will step up cost control in order to improve its profits. Since most of its expenses are of a fixed nature, it is believed that with a growth in the Group's sales volume, its cost efficiency will improve correspondingly.

The increase in its financial expenses 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 the bank. For the year ended 31 December 2007, the Group generated approximately HK$2,000,000 (2006: approximately 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, which is less than approximately HK$81,000,000 as at 31 December 2006.

As at 31 December 2007, the shareholders' equity was approximately HK$99,800,000 (2006: HK$211,100,000). The 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 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 as provision for bad and doubtful debts.

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).

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$, the Group believes its exposure to exchange risk will be confined to RMB and HK$ and that will be minimal. At present, the Group does not intend to hedge its exposure to foreign exchange fluctuations. However, the Group will constantly monitor the economic situation and its foreign exchange risk position, and will consider appropriate hedging measures in future as may be necessary.

Capital Commitments and Contingent Liabilities

During the Year, the Group's capital commitments amounted to approximately HK$810,000 (2006: approximately 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: approximately HK$57,500,000). Employee's remuneration is determined by the work responsibilities, job performance and professional experience. The Group also provides staff training from time to time to upgrade their 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 completely knocked down ("CKD"), semi-knocked down ("SKD") and completely built unit ("CBU"). The Group's CRT CTV products were mainly sold in 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 sale, 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, increase in sales of LCD CTV products partially compensated the decline in sale of 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 rising signs. In addition, cabinet design is important to LCD CTV products. Greater emphasis on industrial design has been gradually incorporated into the Group's research and development process. The Group has developed its own product design collection.

During the Year, the Group made an investment in Italy, of which the Group holds a 19% equity interest of the joint venture company, to expand the oversea sales channels. The investment commenced its business in the second quarter of 2008, its target market is European.

Outlook

Although CRT CTVs are now into a stage of dwindling production, outlook for 2008 is promising. Effect of the Olympics 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 of data: 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 (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 cost. 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 cost as well as pursue production quality and speed.

In the area of supply chain management ("SCM"), the professional skills of purchasing staff will be raised and in a bid to implement cost reduction: SCM efficiency will be improved, stock inventory will be controlled, efficiency of capital utilization will be stepped up and service 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).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 22 September 2008 to 29 September 2008, both days inclusive, during which no share transfer will be effected. In order to determine entitlement to attend and vote at the forthcoming annual general meeting of the Company on 29 September 2008, all transfers accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 19 September 2008.

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.

MODEL CODE FOR 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 Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on terms no less exacting than that required by the Listing Rules on 17 September 2007. All members of the board of the Company (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.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company had complied with the code provisions contained in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules, except for the following deviations:

1. The Board formally appointed Mr. Zhang Shuyang as chief executive officer of the Group on 25 April 2007. Thus, the roles of chairman of the Company and chief executive officer of the Group are performed by the same individual, namely Mr. Zhang Shuyang.

2. The Board formally adopted written procedures on 25 April 2007 to govern the delegation of daily management responsibilities to the senior management of the Group and the reservation to the Board of specifically identified matters. This supplemented and enhanced the prior practice of the Board of delegating signing authority on a case-by-case basis for each significant agreement entered into by the Group.

3. The Board formally adopted written terms of reference on 25 April 2007 to govern the authority and duties of each of the audit committee, the remuneration committee and the nomination committee. This supplemented and enhanced the prior practice of these committees of acting in accordance with the corresponding duties set out in the Code on Corporate Governance.

4. The Board formally adopted the Model Code as set out in Appendix 10 of the Listing Rules for securities transactions by the Directors on 17 September 2007.

5. The audit committee, remuneration committee and nomination committee of the Company have not yet been established as required under the Listing Rules, because of lack of the required number of independent non-executive Directors. The Company is now actively identifying suitable candidates as independent non-executive Directors, and expects to have in place those committees as required under the Listing Rules within three months from 7 July 2008.

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.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The annual results of the Group for the year ended 31 December 2007 is available for viewing on the website of The Stock Exchange of Hong Kong Limited at www.hkex.com.hk and on the website of the Company at http://www.mitsumaru-ek.com. An annual report for the year ended 31 December 2007 will be despatched to the shareholders and available on the above websites in due course.

BOARD OF DIRECTOR

As at the date of this announcement, the executive Directors are Mr. Zhang Shuyang, Mr. Tung Chi Wai, Terrence and Mr. Leung Koon Sing and the independent non-executive Director is Mr. Mu Xiangming.

On Behalf of the Board
Mitsumaru East Kit (Holdings) Limited
Zhang Shuyang
Chairman

Hong Kong, 19 August 2008